

AUTUMN 2021

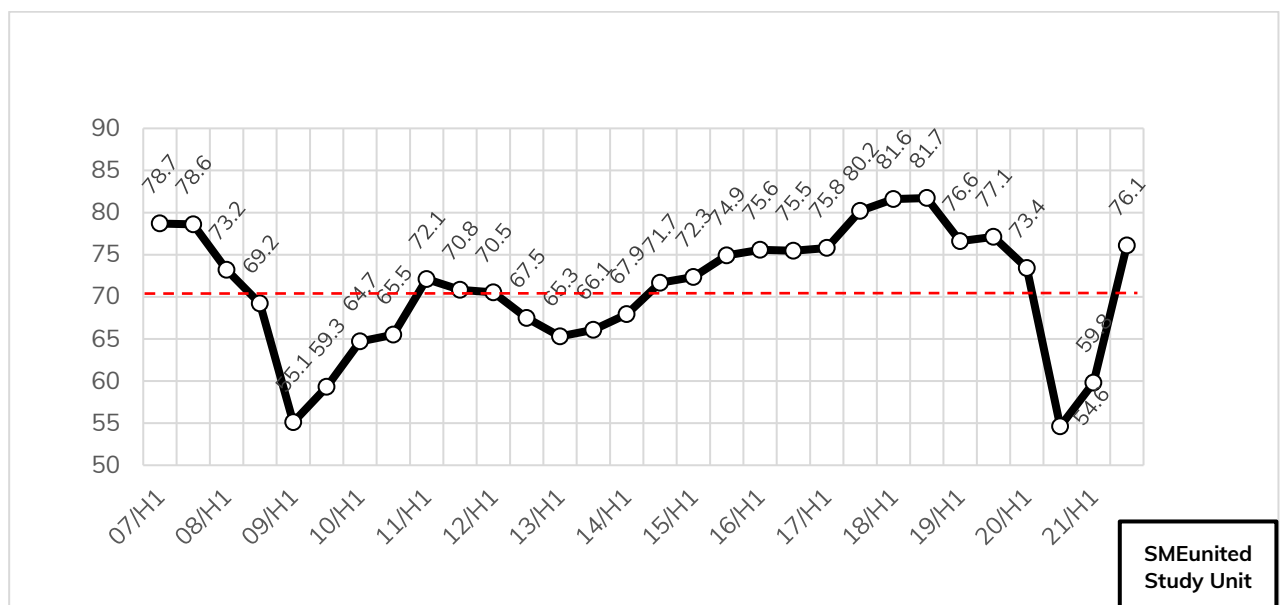
**The SME Business
Climate Index and
EU Craft and SME
Barometer**

SME Business Climate Index rises to 76.1

SMEs' confidence above pre-Covid levels

The latest figures for the Business Climate Index for the European Union reveal a surge in SMEs confidence for autumn 2021. Indeed, the index presents a steep increase up to 76.1%, while last spring indicator stood at 59.8%. Hence, relative to last survey, 16.3% more SMEs recorded a positive or neutral expectation about the economic environment.

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 optimistic trend can be attributed to the gradual loosening of the tight lockdown measures taken in Europe. The speeding-up of the EU vaccination schemes was fundamental for the reopening of economic activities. Data were collected between May and August 2021, in conjunction with the rising vaccination rate and the post-lockdown recovery. Moreover, measures aimed at easing travel in Europe were implemented during summer. In particular,

countries that heavily rely on tourism had a strong incentive to facilitate entry restrictions and to speed up vaccinations for workers in the tourism industry.

To have a better grasp of the data composing the index, it may be useful to make a distinction based on the variability with which the pandemic affected different European countries.

Chart 2 – Business Climate Index for “Most Covid-impacted” countries

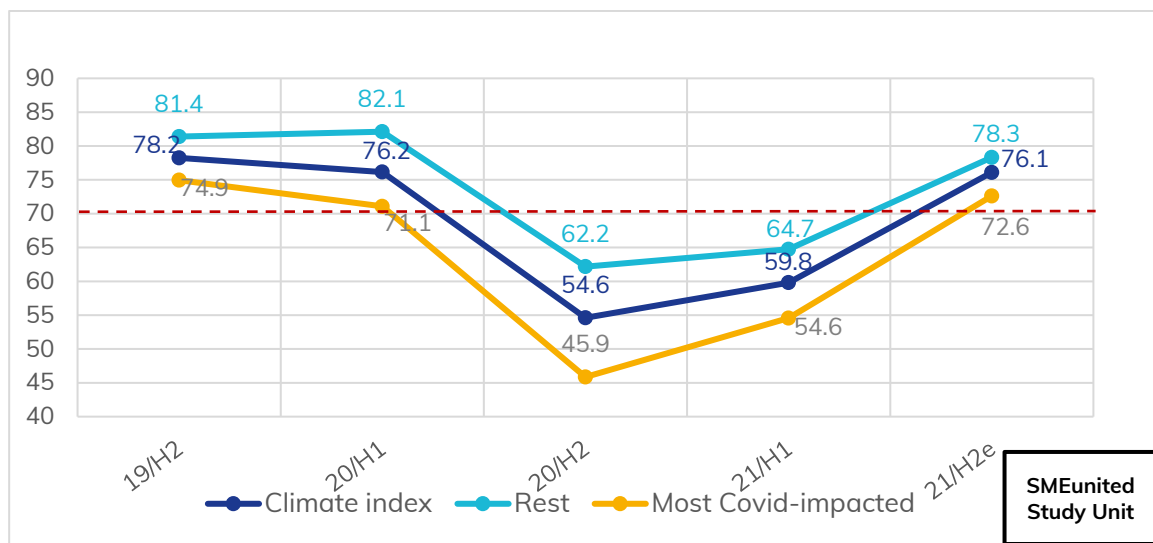


Chart 2 shows the SME BCI for the “Most Covid-impacted”¹ and for the “Rest”² of the countries.

There is a degree of heterogeneity among the European countries included in the survey. A primary reason can be linked to the fact that the impact of the lockdowns diverged across Member States. By comparing GDP levels, it was possible to identify a set of six countries which were most hit by the crisis: Greece, Portugal, Croatia, Spain, Italy, and France.

In the period between the first and second semester of 2020, the index for the most hit countries presented a larger drop with respect to the rest of the sample. These were countries with low 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 selected are heavily dependent on tourism. In addition to the severity of lockdown measures, other factors such as the quality of governance of a specific country have a significant impact on its economic contraction.³ However, already starting from last semester, the figures have started to converge to pre-crisis levels, as Chart 2 shows.

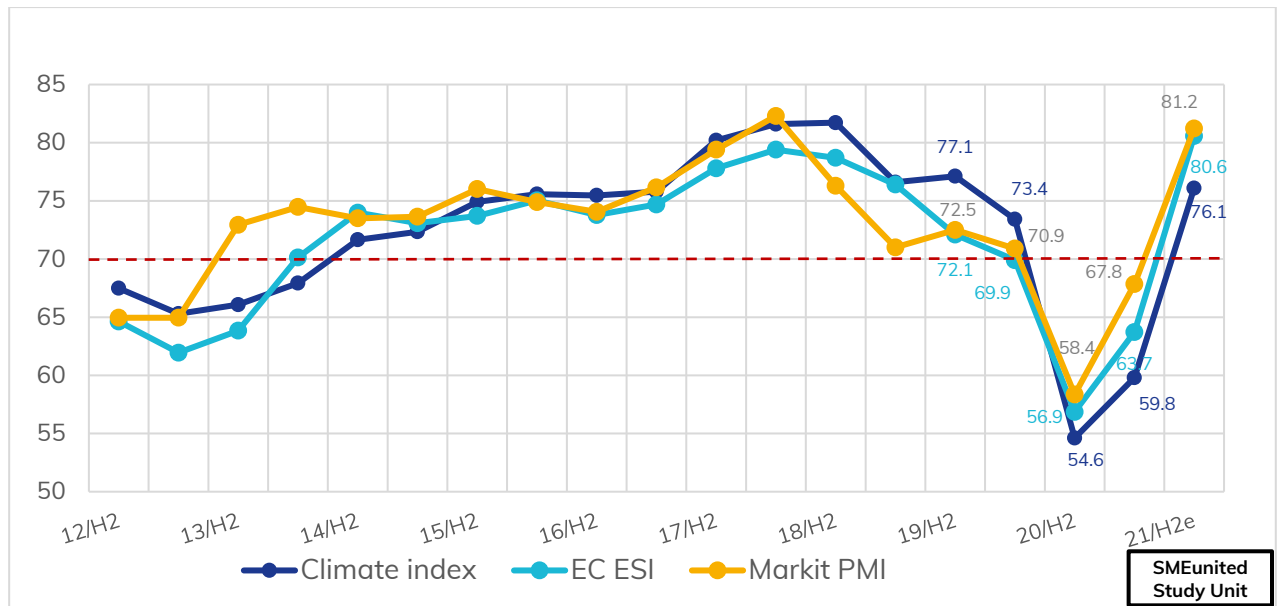
¹The “Rest” group includes Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Romania, Slovakia, Slovenia, and Sweden.

² The “Most Covid-impacted” group includes Croatia, France, Greece, Italy, Portugal, and Spain.

³ <https://www.bruegel.org/2020/09/why-has-covid-19-hit-different-european-union-economies-so->

As a robustness and comparative exercise, Chart 3 compares the SME Business Climate Index (BCI) with the European Commission’s Economic Sentiment Indicator (EC ESI) and the Purchasing Managers’ Index (Markit PMI).

Chart 3 – 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 re-scaled to make it comparable with the SMEUnited SME Business Climate Index, with 70 as the long-term average/neutral value. http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm. The Markit Composite PMI tracks variables such as sales, employment, inventories and prices of large firms in manufacturing and services. The average of last six months PMI values has been re-scaled to make it comparable with the SMEUnited SME Business Climate Index, with 70 as the long-term average/neutral value.

The rise of the BCI is clearly matched by an even steeper increase of the EC ESI and Markit PMI. The BCI is lower than the two other indexes for the third time in a row. This may be explained by the fact that the SME sector, hosting a high concentration of service enterprises, was hit more severely with respect to larger enterprises. This is confirmed by the Business and Consumer survey of the European Commission for August 2021, which shows that services confidence lags behind average.

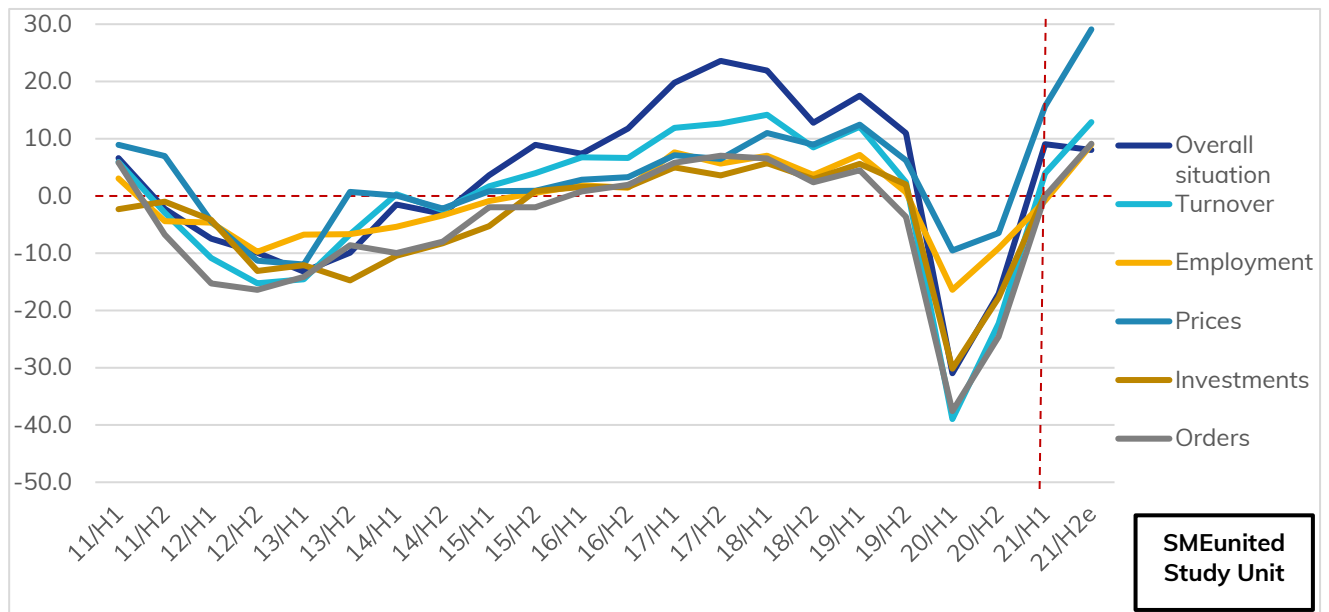
EU SME Barometer shows strong recovery and fear of inflation

The EU Craft and SME Barometer presents the balance between positive and negative opinions from SMEs for different business indicators, sizes and sectors⁴.

Results for Spring 2021: SMEs performance recovers

The first semester of 2021 shows a strong recovery, with almost all indicators turning positive for the first time after the Covid-19 crisis.

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



The trend clearly shows a positive switch of SMEs overall situation, increasing by 26.1 points to a positive value of 9.0 in the first semester of this year, thus reversing the negative impact of the pandemic over the past semesters.

Turnover’s performance is in line with the overall situation: it shows the largest upswing (by 26.2 points), from -22.3 in last year’s second semester to 3.9 in the first semester of the current

⁴ More information on the methodology can be found on page 13.

year. Orders rise by 24.6 thus reaching the zero-threshold, coming from the most negative value recorded in 2020H2 (-24.6).

Prices, on the other hand, show the highest value, if we consider the past ten years' trend. It is worth noting that, being at 15.7, prices are even higher than 12.4, which is the pre-Covid recorded value for the year 2019H1. This can be linked to the scarce availability of resources, particularly in the construction and manufacturing sectors, and consequent higher prices of raw materials and energy, as we will investigate further.

Investments rose by 18.1 points, following the optimistic expectations for turnover. The index for employment increased by 9.9 points, thus being the only category still exhibiting a negative value of -0.8. However, we should consider that last year's decrease was more mitigated relative to the other categories, thanks to the national support schemes aimed at protecting workers from the negative impact of the health crisis.

Main results for first half of 2021 significantly better than expected

The comparison between results and expectations in Table 1 indicates that SMEs were very cautious in their forecasts for the first semester of 2021. However, this is coherent with the uncertainty faced by European enterprises in the beginning of the year as regards the virus advancement and the vaccine effectiveness.

Table 1 – Expectations and actual results for 21/H1

	Expectations 21/H1e	Results 21/H1	Δ (R-E) 21/H1
Overall	-24.9	9.0	33.9
Turnover	-18.9	3.9	22.9
Employment	-7.0	-0.8	6.2
Prices	8.1	15.7	7.6
Investments	-22.5	0.3	22.8
Orders	-20.2	0.0	20.1

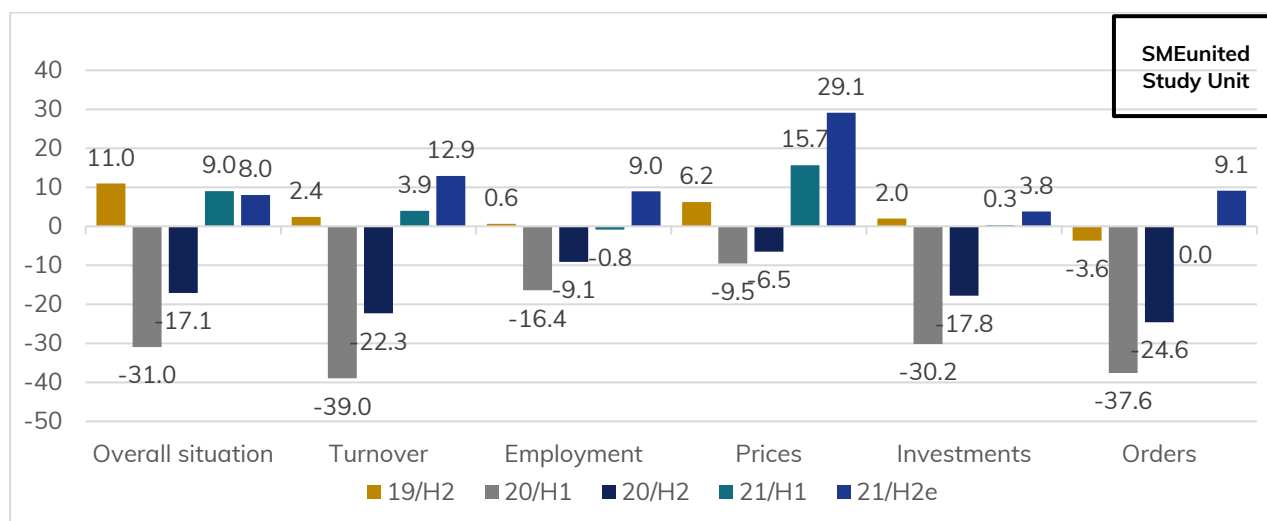
What strikes most is that all the indicators with the exception of prices were expected to remain at negative levels. Hence, enterprises did not expect the fast recovery that took place in 2021H1. On the other hand, although higher prices were predicted, the actual results exceeded them by 7.6 points.

Very large differences are detected for turnover and investments, namely of 22.9 and 22.8 respectively. This shows that enterprises have been able to increase turnover thanks to the national recovery plans. In turn, this allows them to take up investment, which further strengthens the recovery.

Expectations for the current semester show continued growth and inflation worry

SMEs' confidence in the state of the economy can be retrieved from Chart 5. The overall situation is expected to slightly decrease for the current semester relative to the previous one. This may be signaling that SMEs are being more cautious in their forecasts about the future, due to rising unpredictability. Fear of inflation, the prospect of a potential fourth wave and lockdown are among the reasons justifying this uncertainty perceived by enterprises. In parallel, SMEs seem to be confident about their own business: turnover, employment, investments and orders are all projected to increase.

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



Investments display the most timid reprise across the indicators. This can be justified by three 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; finally, entrepreneurs might want to avoid unnecessary risks for their businesses due to the perceived uncertainty.

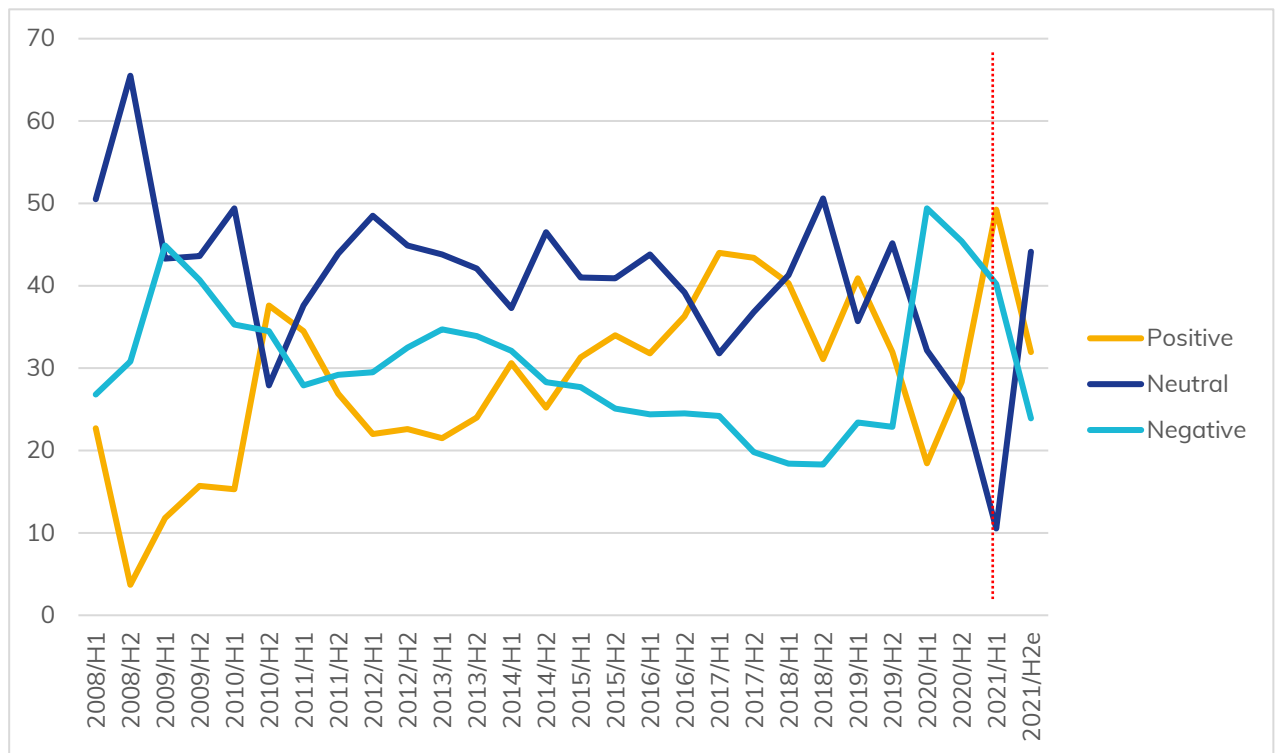
Furthermore, an increase in the employment balance is displayed in Chart 5, signaling SMEs' intentions to hire personnel. However, more and more SMEs complain about shortage of labour supply, which may prevent them to realise their plans.

It is important to notice that price expectations are expected to increase by nearly 14 points, with a figure of 29.1, thus reaching a new highest level. A reason for this can be the fact that SMEs count on a continuing increase in the price of production materials and further supply chain disruptions, especially in the construction and manufacturing sectors.

The overview of survey replies shows a strong move to neutral answers for the current semester

Chart 6 reports the answer trend of the EU Craft and SMEs Barometer and delivers further insights on the SMEs economic perspective for the second semester of 2021.

Chart 6 – Overview of survey replies to SMEUnited SME Barometer



From the overview of survey replies of 2021H1 (dashed red line), answers appear to be polarised. Indeed, positive answers increased significantly to 49.2% of the responses. Negative answers stood at 40.2%, decreasing by 11% from the previous figure. As a result, neutral answers took on a value of 10.5%, thus representing a new lowest record.

The replies on expectations, however, present a very different picture. While negative answers continue decreasing, positive answers invert their trend and decrease to 23.9% , thus leaving room to a simultaneous increase of neutral replies, which reach 44.1%. Hence, the received data about expectations shows a clear shift in the distribution of responses, from positive answers towards the neutral ones. This could point to a mounting uncertainty about upcoming months, due to the emergence of new mutations of the virus, as well as to the fear for a fourth wave. In fact, though the containment measures have been successful over the summer, there is still a risk of a resumption in the virus circulation in autumn. The increase in neutral replies could also be accounted for by the fact that entrepreneurs expect the overall situation to remain stationary, despite the rise in turnover expectations.

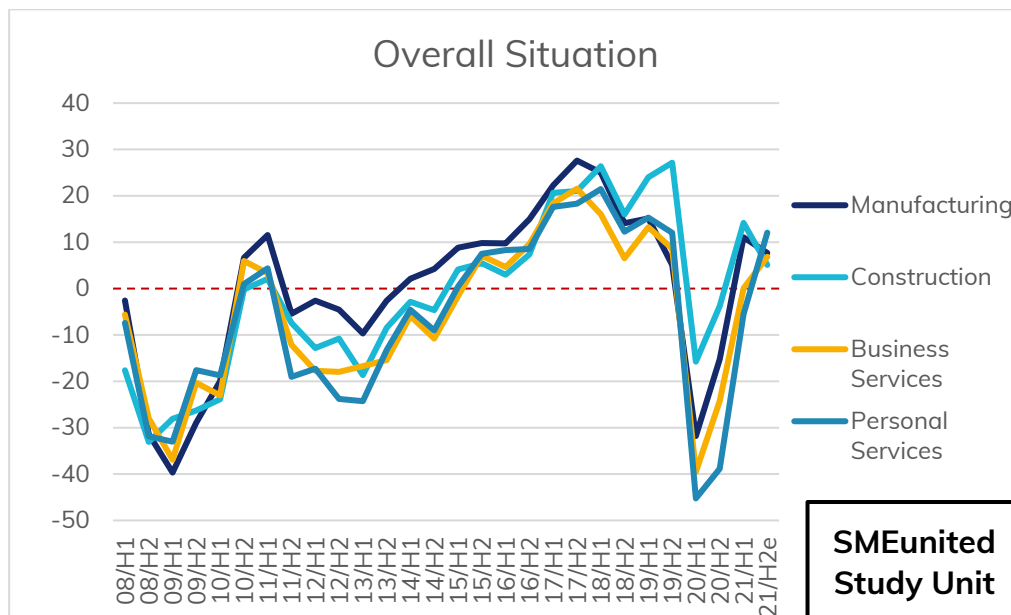
Development by sectors and size: steep growth in all sectors and flattening trend in expectations

Chart 7 reports the overall situation trend partitioned by economic sector. The results for 2021H1 show that the scores for manufacturing and construction turned positive, although they are expected to decline in the current semester. Differently, business and personal services stood at 0.0 and -5.5 respectively for last semester and are expected to grow in the current period.

The deconfinement measures boosted construction and manufacturing. Indeed, the measures put in place to resolve supply chain bottlenecks, together with looser sanitary restrictions played a role in the recovery of the manufacturing sector. The latter experienced an increase to 11.1 points in the previous semester, from a starting point of -15.2, profiting also from a boost in global trade.

However, the picture looks different as far as SMEs' forecasts are concerned. Indeed, the manufacturing score is expected to decrease to 7.7 points in 2021H2. Such downturn is possibly linked to supply chain disruptions and expensive raw materials and high energy prices. This is consistent with the expectation of increasingly higher prices for the manufacturing enterprises, as can also be seen in the graph displaying prices by sector in Annex B. A similar explanation can be applied to the expected trend for construction.

Chart 7 – Overall situation by sector

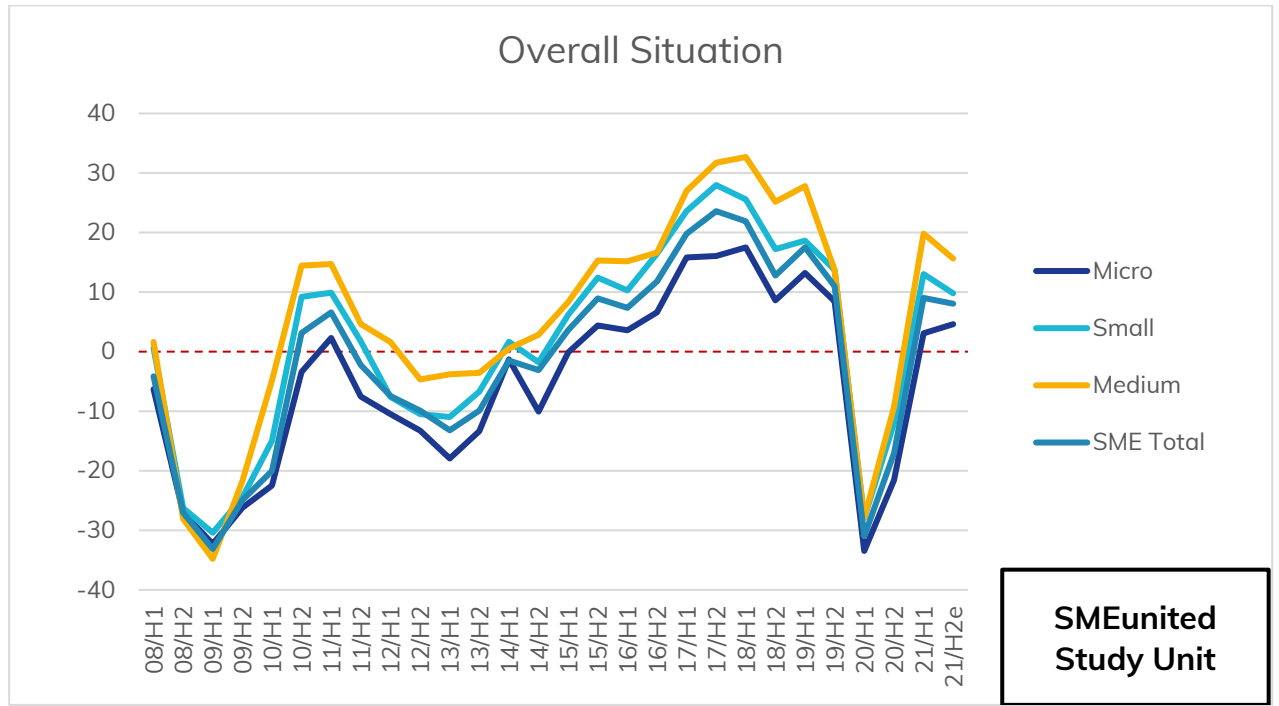


The construction sector presents the highest value for last semester results. On the other hand, its expected trend for the current months presents a downward sloping curve. As a result, the construction forecasted score stands at 5.1: the lowest among the four sectors' expectations. The declining trend may be partly triggered by the worry over an expected shortage of building materials and consequent increase in their costs (see "Prices" by sector in the Annex). In addition, labour shortage and projects delays resulting from a possible fourth wave may also play a role in the expectations of construction businesses.

Moreover, the expected trends also rely on the different methodology used for the Barometer with respect to the one implemented for the Business Climate Index (BCI). Namely, while neutral answers are included in the BCI, they are not accounted for in the Barometer overall situation. Hence, having previously noticed a pick-up in neutral answers at the expense of positive ones, the uncertainty of SMEs has a stronger repercussion on the Barometer figures.

As for personal services, they still displayed a negative figure for last semester. It is important to notice, though, that this sector was the most hardly hit during the pandemic, due to the drastic containment measures enacted. Hence, the shift in the personal services score from -38.8 in 2020H2 to -5.5 in 2021H1 can be considered a sizeable increase. Moreover, both the business and personal services sector are expected to continue growing steeply and to touch positive grounds for the current semester.

Chart 8 – Overall situation by size



**SMEUnited
Study Unit**

Chart 8 shows the overall situation by enterprises' size. The graph shows that micro enterprises lagged behind small and medium ones in the recovery during last semester. This can be linked to the negative figures recorded for personal services, where micro enterprises are over-represented. However, a partial sign of recovery can be identified in the expectations for the current semester.

Conclusions and recommendations

The reopening of business activities, together with the advancement of vaccination schemes before and during last summer, mostly accounts for the impressive rise of the Business Climate Index for 2021H2. Moreover, the comparison between the BCI of the most Covid-impacted countries and the others showed a converging trend for the current year. Thus implying that those countries which had to impose stricter lockdown measures are expected to further reduce the gap in the next period.

Actual results for 2021H1 strongly exceeded expectations, especially for turnover and investment. This shows that SMEs were initially cautious in their expectations, due to uncertainty about vaccine effectiveness and the emergence of new variants of the virus. However, enterprises were able to take advantage of the relief national plans and increased investment, thus further strengthening the recovery.

As can be inferred from the Barometer results, the loosening of lockdown measures and the rising vaccination rates in Europe triggered SMEs' encouraging expectations for 2021H1. In any case, uncertainty is expected to persist in the SME sector, especially for micro and small businesses. Indeed, the latter would possibly suffer the most from a potential fourth wave of Covid-19.

The recovery has progressed, but uncertainty remains and more efforts are necessary to allow SMEs to tackle the transition to a greener and more digital economy. Therefore, SMEUnited recommends that policies at European and national level should:

- try to stabilise energy and commodity markets and protect vulnerable customers where necessary;
- 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;
- provide instruments to allow businesses with a positive business perspective to stay solvent;
- 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;
- involve social partners and SME organisations in the implementation of National Recovery and Resilience Plans;
- 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.

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 May 2021 and August 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 indicators: **overall situation, turnover, employment, prices, investment and orders**. 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 first semester of 2021 as well as the expectations for the second half of 2021.

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 fact 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 – Autumn 2021

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	20H2	21H1e	21H1	21H2e	20H2	21H1e	21H1	21H2e	20H2	21H1e	21H1	21H2e	20H2	21H1e	21H1	21H2e
Overall	-17,1	-24,9	9,0	8,0	-21,6	-28,2	3,1	4,6	-12,0	-23,9	13,0	9,8	-9,3	-19,1	19,8	15,6
Turnover	-22,3	-18,9	3,9	12,9	-27,0	-23,2	-0,9	9,6	-18,4	-18,0	8,6	14,7	-13,6	-10,8	12,2	19,9
Employment	-9,1	-7,0	-0,8	9,0	-9,9	-8,2	-1,0	4,5	-8,9	-7,7	1,8	8,1	-7,4	-4,4	-2,5	19,9
Prices	-6,5	8,1	15,7	29,1	-6,6	7,0	13,6	26,6	-5,6	8,1	18,8	29,6	-5,8	10,8	17,8	35,1
Investments	-17,8	-22,5	0,3	3,8	-21,0	-25,8	-2,2	1,3	-13,9	-21,8	2,7	4,1	-14,0	-15,3	3,5	9,6
Orders	-24,6	-20,2	0,0	9,1	-28,8	-23,7	-4,6	6,9	-19,6	-19,1	4,8	10,3	-14,9	-14,0	11,4	13,3

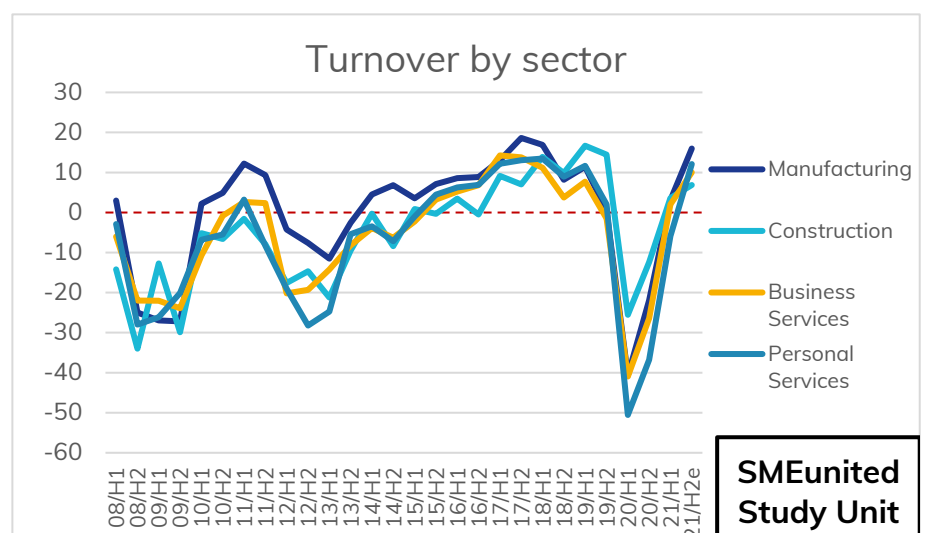
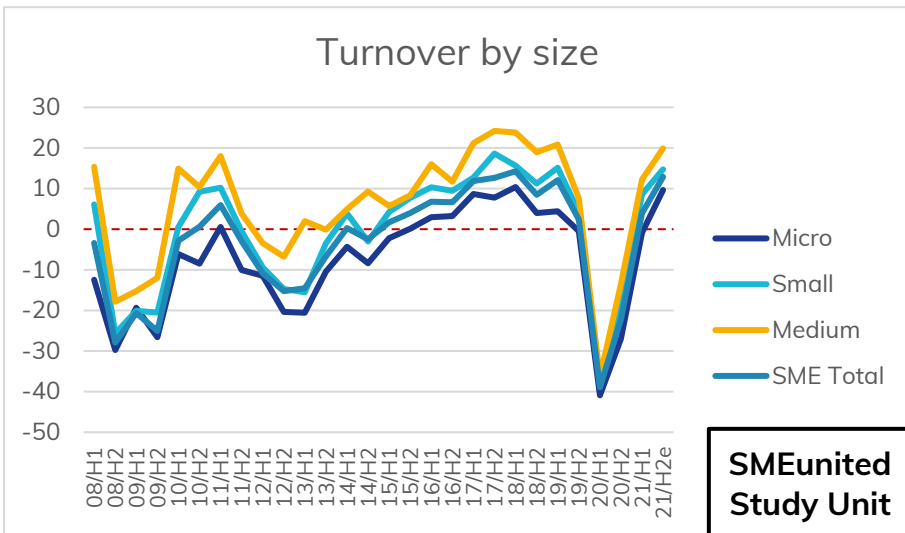
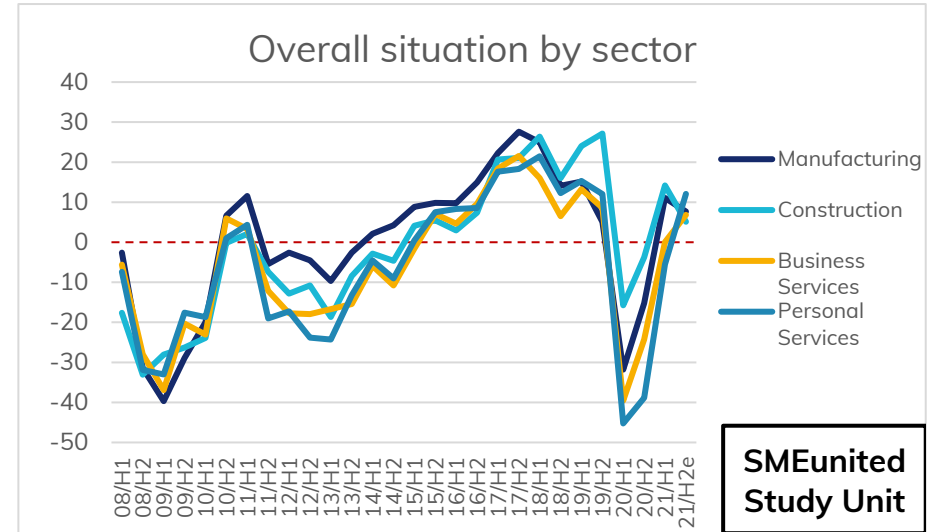
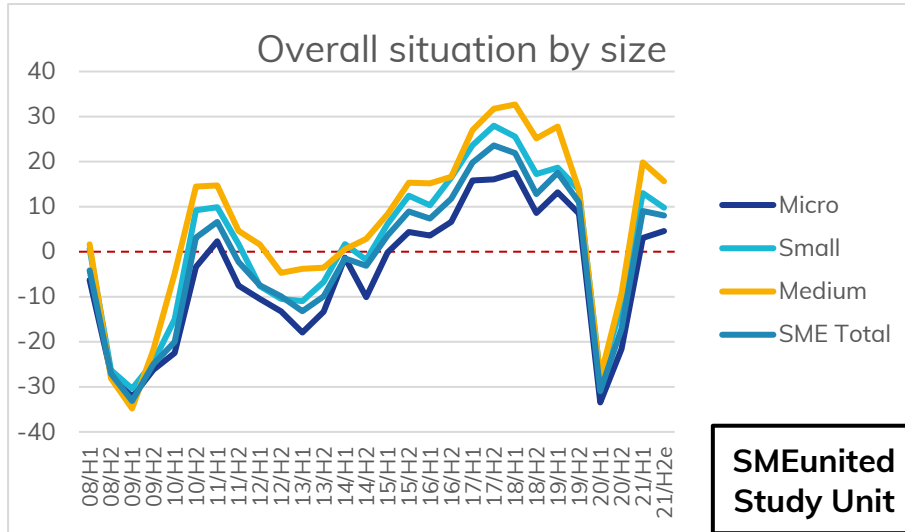
	Manufacturing				Construction				Business Services				Personal Services			
	20H2	21H1e	21H1	21H2e	20H2	21H1e	21H1	21H2e	20H2	21H1e	21H1	21H2e	20H2	21H1e	21H1	21H2e
Overall	-15,2	-20,0	11,1	7,7	-3,8	-17,8	14,2	5,1	-24,2	-27,3	0,0	6,8	-38,8	-39,8	-5,5	9,6
Turnover	-21,9	-12,2	3,1	16,0	-12,4	-14,6	3,6	6,9	-26,4	-22,4	2,0	10,0	-36,8	-32,0	-5,9	12,1
Employment	-11,9	-4,9	-2,5	6,6	-5,2	-4,1	1,3	5,5	-12,6	-8,6	-0,1	7,7	-12,0	-11,0	-2,9	4,4
Prices	-7,1	7,0	17,7	34,7	-2,7	9,8	21,4	29,7	-7,0	5,6	12,7	24,4	-8,8	6,2	4,8	20,0
Investments	-19,6	-16,2	0,9	5,0	-11,1	-18,2	-1,1	-0,2	-19,6	-20,1	0,8	3,6	-26,5	-31,3	-3,7	2,8
Orders	-20,1	-13,3	3,2	12,7	-14,2	-17,0	2,7	3,3	-26,8	-21,6	1,0	8,0	-36,6	-30,0	-8,2	12,1

Annex B – Difference between the realised and expected figures

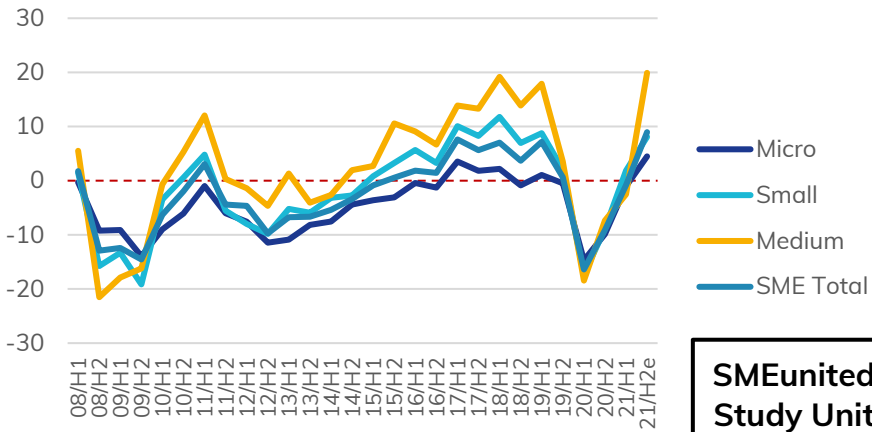
	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	20H2-20H2e	21H1-21H1e	20H2-20H2e	21H1-21H1e	20H2-20H2e	21H1-21H1e	20H2-20H2e	21H1-21H1e
Overall	0,6	33,9	-2,6	31,2	5,9	36,9	8,6	38,9
Turnover	-8,9	22,9	-11,1	22,4	-4,8	26,6	-2,5	23,0
Employment	-4,4	6,2	-4,8	7,2	-1,6	9,6	0,6	1,9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

	Manufacturing		Construction		Business Services		Personal Services	
	20H2-20H2e	21H1-21H1e	20H2-20H2e	21H1-21H1e	20H2-20H2e	21H1-21H1e	20H2-20H2e	21H1-21H1e
Overall	5,7	31,1	12,9	32,0	-10,2	27,3	-18,0	34,3
Turnover	-8,9	15,2	-0,1	18,2	-13,1	24,4	-20,8	26,1
Employment	-4,3	2,4	-3,6	5,5	-7,0	8,5	-5,1	8,1
Prices	-4,2	10,7	-4,9	11,6	-5,0	7,1	-9,0	-1,5
Investments	3,6	17,1	8,8	17,1	-0,4	20,9	1,6	27,6
Orders	-7,4	16,5	2,3	19,8	-13,5	22,6	-23,5	21,9

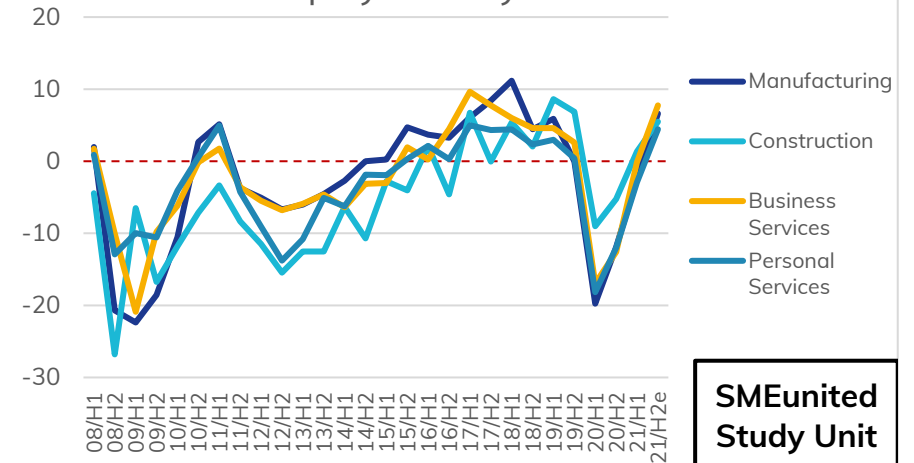
Results – European Crafts and SME Barometer – Autumn 2021



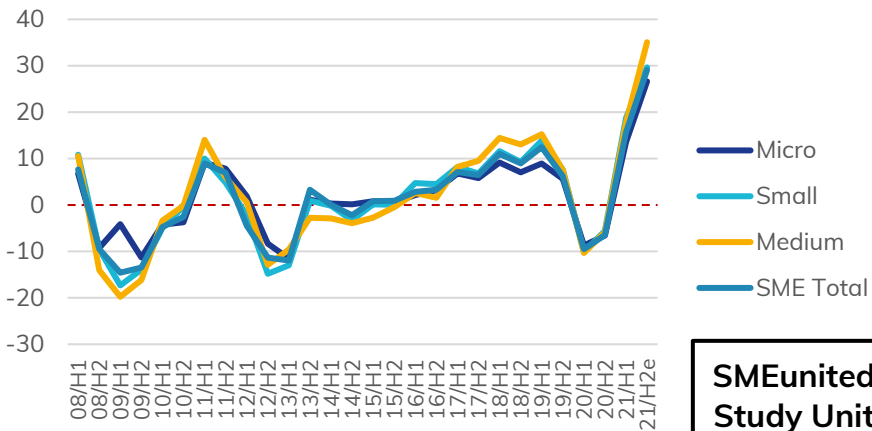
Employment by size



Employment by sector



Prices by size



Prices by sector

