

AUTUMN 2022

The SME Business Climate Index and EU Craft and SME Barometer



Executive Summary

The SME Business Climate Index shows that the SMEs recovery came to an end with recession risk on the horizon. Even if the results for the last semester are significantly above expectations, the BCI reports a 2.8% decline in SMEs' confidence for the future.

The unstable economic context caused by the impact of the war in Ukraine, rising energy prices, supply chain disruptions and inflationary pressures are the main reasons for the worsening business confidence. In particular, SMEs with a strong presence in the construction sector are hit by high interest rates on mortgages.

Expectations about investments are worse than expected because of uncertainty regarding the future business environment. Furthermore, the survey was conducted from May to August 2022, the EC ESI declined during September 2022, which indicates the current situation for the second semester may be even more bleak than the expectations presented and SMEs' risk of recession is growing.

To allow SMEs to face the high uncertainty related to the Ukrainian war, the focus of national and European policies should be on stabilising energy and commodity markets and taking urgent action to mitigate energy price hicks. This is a prerequisite for investments and reforms to accelerate the green and digital transition.

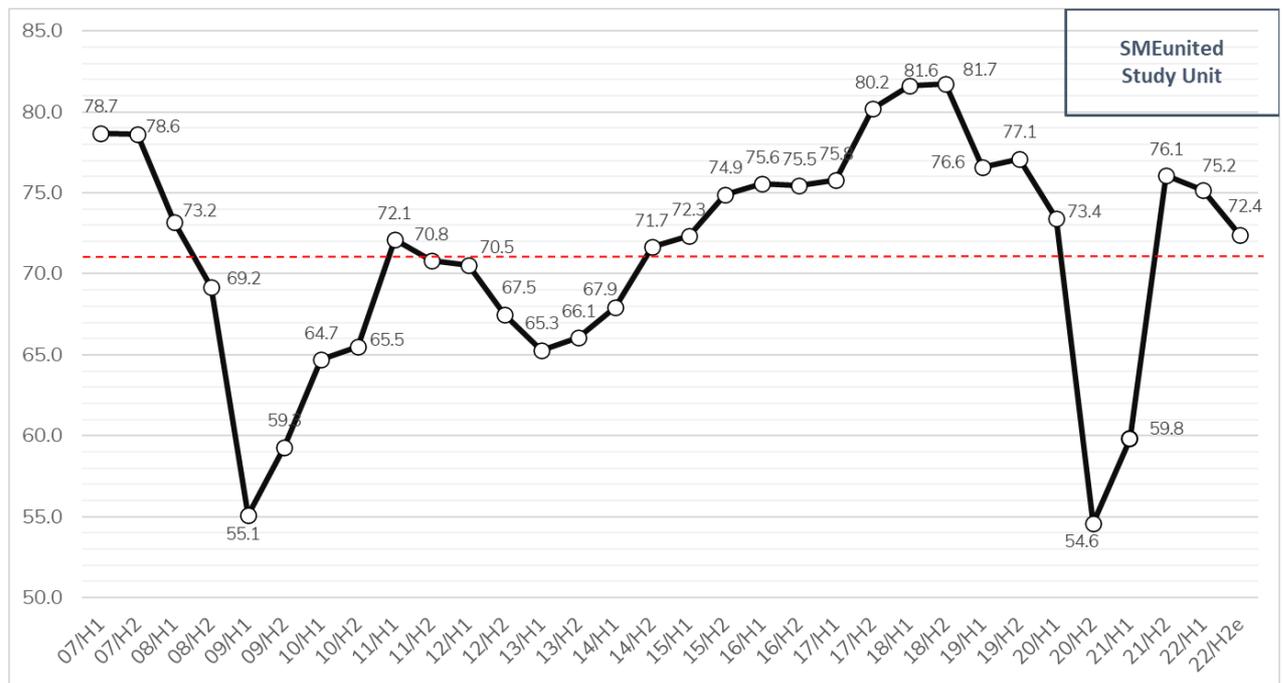
SME Business Climate Index decreases to 72.4

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).

SMEs' risk of recession is growing

The latest SME Business Climate Index for the European Union reports a reduction in SMEs' confidence for Autumn 2022. This drop is in line with the declining trend that started during the second semester of 2021, but it is accelerating (-2.8%). The index gets closer to the baseline, which is seen as a neutral stance, and increases the risk of a recession in the near future.

Chart 1 – SMEunited Business Climate Index



22/H1: First half of 2022

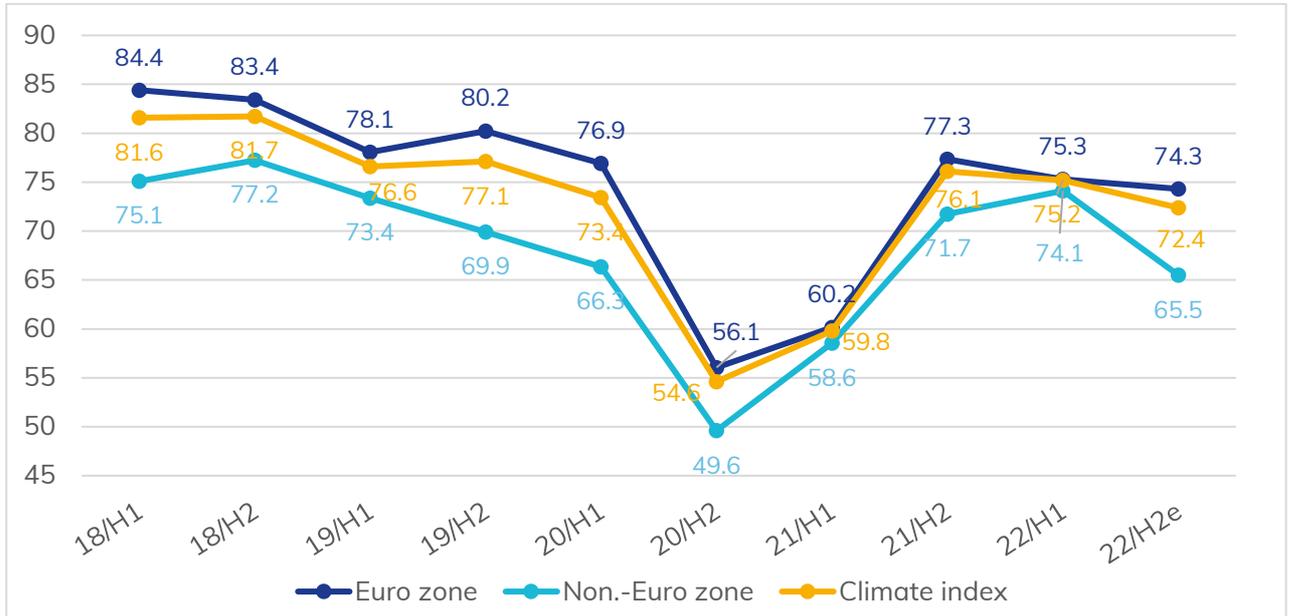
22/H2e: Expectations for the second half of 2022

After the Russian invasion of Ukraine in late February, geopolitical tensions and a strong energy price surge followed. The subsequent inflation together with the ongoing supply chain disruptions and the impact of sanctions have exacerbated the economic instability, worsening European SME's business confidence and increasing the risk of a recession.

The index in Chart 2 presents lower values for Non-Euro zone countries. This means that especially Eastern European countries with closer interconnections with Russia such as Bulgaria, Czech Republic, Hungary, Poland and Romania have been the most affected by the daunting economic context.

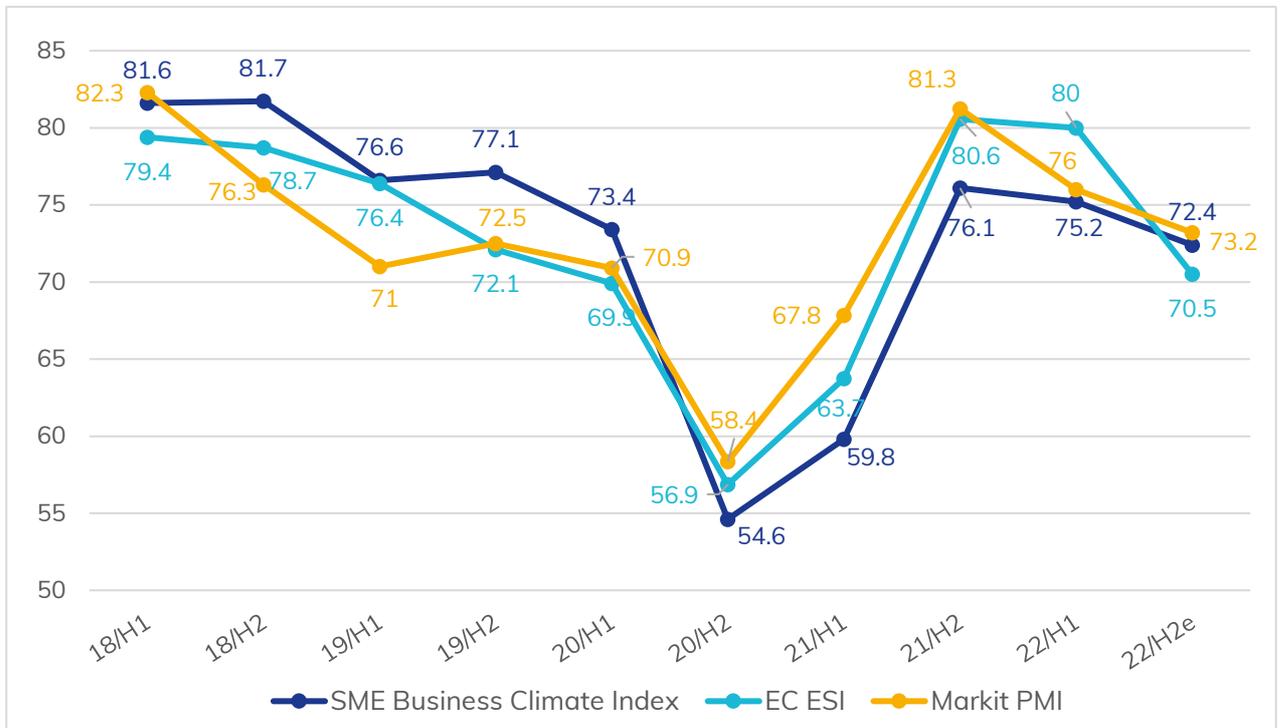


Chart 2 - SMEUnited BCI: Comparison Eurozone vs Non-eurozone



As a robustness and comparative exercise, Chart 3 associates 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



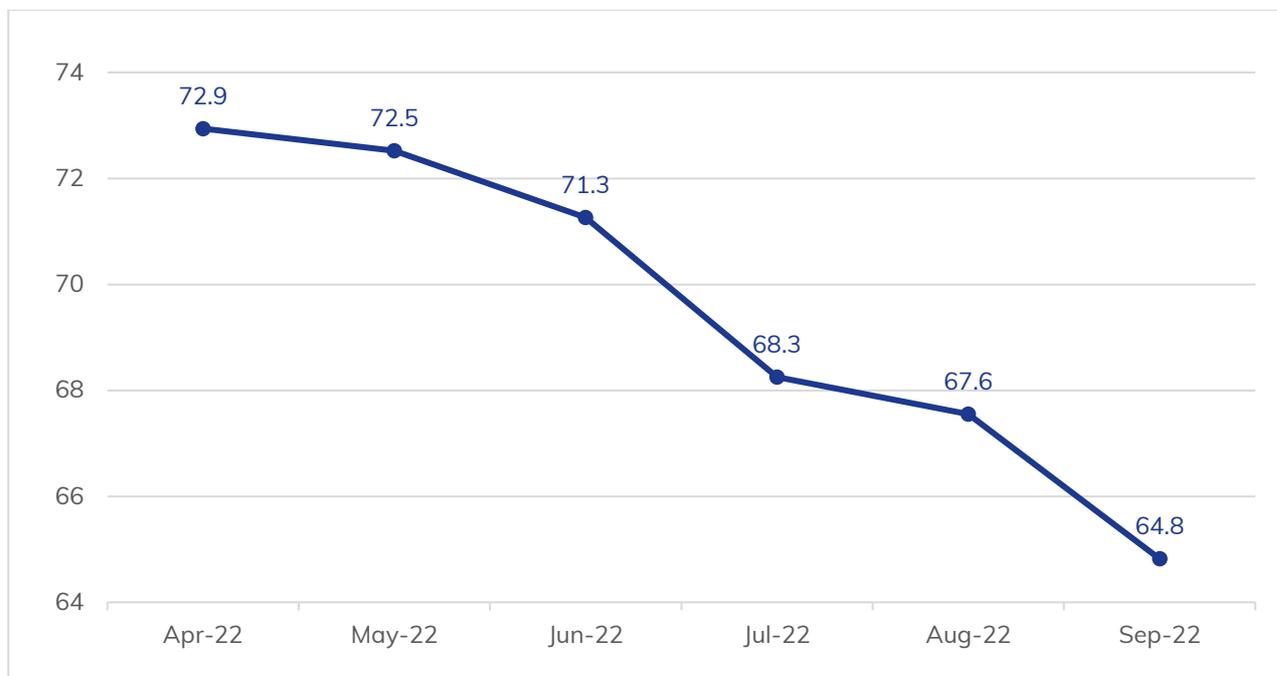
The EC's ESI measures five confidence indicators linked to different sectors. The average of the last six months ESI values has been re-scaled to 70 as a long-term average/neutral value.

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.

The Economic Sentiment Indicator reports the lowest value across the three indexes with regard to the current business climate. Given that the data for the SME Climate Index have been collected between May and August 2022. Given the strong downward trend shown by Chart 4 for the EC ESI, the SME Index may be overvalued.

Chart 4 shows the EC ESI Trend separately from the other indexes, from April to September 2022. Its fall is caused by growing concerns about energy price hikes, supply chain disruptions, inflationary pressures and a critical geopolitical situation, which may further impact the economic stability.

Chart 4 - EC ESI Trend (April-August 2022)



The EU SME Barometer: high level of uncertainty

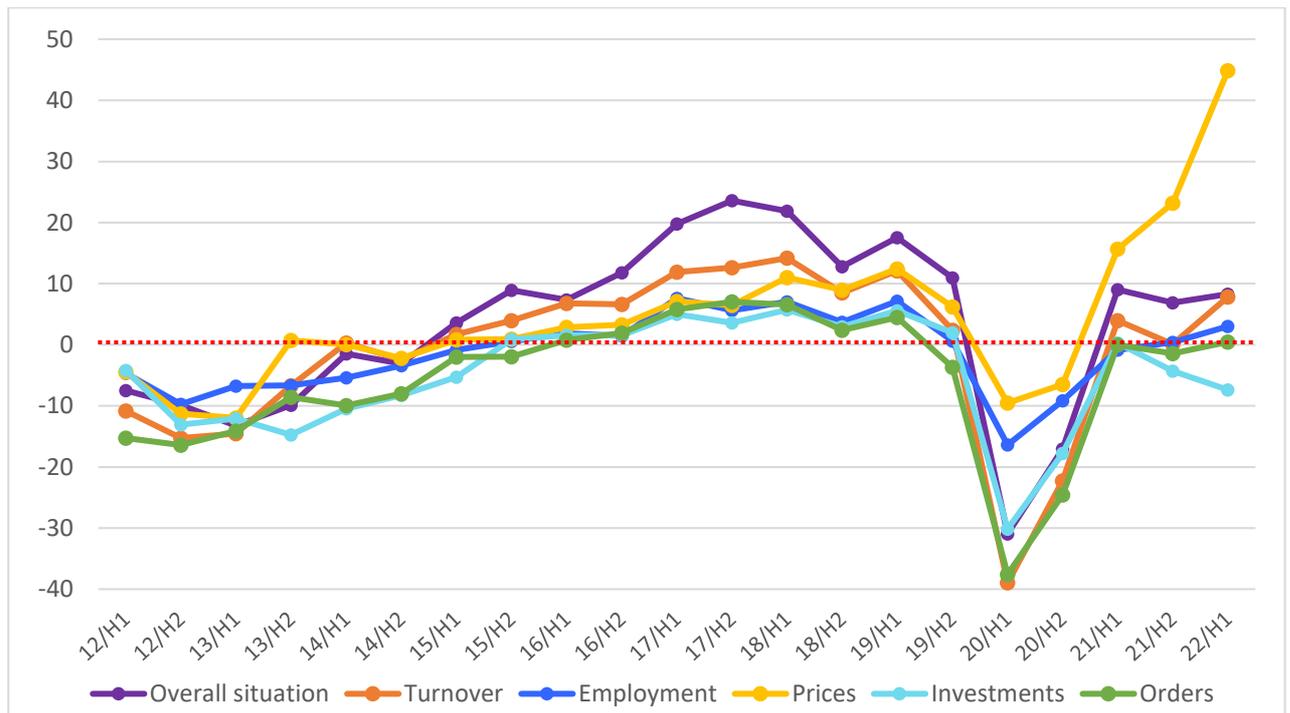
The EU Craft and SME Barometer is built on the results of surveys conducted by SMEUnited member organisations. It shows the difference between positive and negative replies from SMEs of different sizes and sectors for six economic indicators: the overall situation, turnover, employment, prices, investments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

Performance of SMEs slightly increased during the first semester 2022

Chart 5 shows the results for Spring 2022. Orders increased from a value of -1.4 to 0.5. We can see this trend for turnover too, which increased by 7.7. Employment also shows a positive development, even if its improvement is less dynamic than turnover's, with just a 2.6 increase. The demand for staff grew, since SMEs engaged to hire more staff to comply with rising demand. However, this demand has not been satisfied, in fact, there is still a lack of labour supply.

On the other hand, price indices display the highest increase among the indicators, scoring the highest positive value recorded until now: during the first semester of 2022 they rose by 21.7, from 23.2 to 44.9. This increase can be attributed to rising energy prices and raw material costs, which forced companies to raise selling prices, leading to higher inflation.

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



Results for first half of 2022 significant above expectations

Table 1 shows the comparison between SME's expectations for the first semester of 2022 and the actual results. SMEs' expectations were more pessimistic than the results achieved. This means that recovery was stronger than expected, mainly thanks to the fact that the negative expectations for Spring 2022 reported during Winter 2021, following the Covid variants outbreak, didn't materialise.



Usually, investment results are better than expected, because they are structurally underestimated. In this case, results worsened due to the outbreak of Russia's war in Ukraine and higher energy prices. Despite positive trends in all other business categories, uncertainty about the future business environment prevented companies from investing.

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

	Expectations 22/H1e	Results 22/H1	Δ (R-E) 22/H1
Overall	-7.3	8.3	15.6
Turnover	1.5	7.8	6.3
Employment	2.5	3.0	0.5
Prices	34.3	44.9	10.6
Investments	-7.1	-7.4	-0.3
Orders	-0.3	0.5	0.8

Expectations for Autumn 2022: sharp increase in uncertainty

Even if the first semester of 2022 showed an improvement for SMEs compared to the end of 2021, expectations for the second semester of 2022 mark a completely inverted trend. Almost all figures present negative values and the overall performance is expected to decline up to a value of -16.7: SMEs revised their expectations sharply downward, due to the rising unpredictability of the business environment caused by the energy supply crisis and the high costs of commodities.

For this reason, also investments' expectations exhibit a drop that hits the value of -14.3.

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

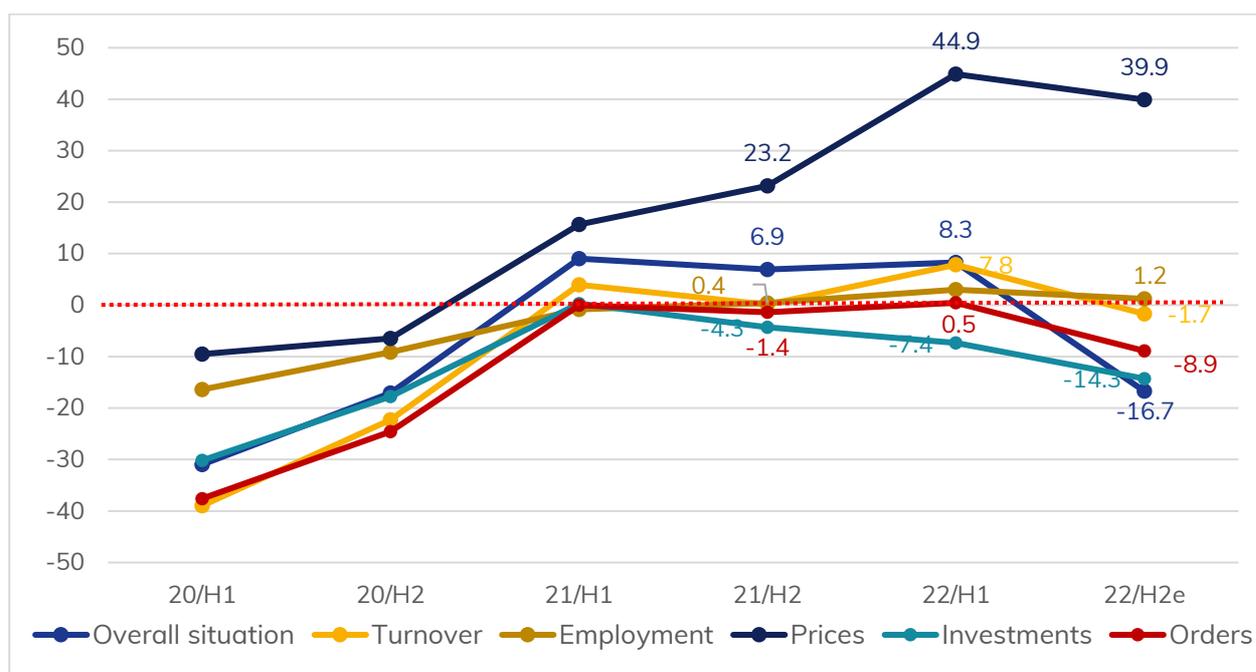


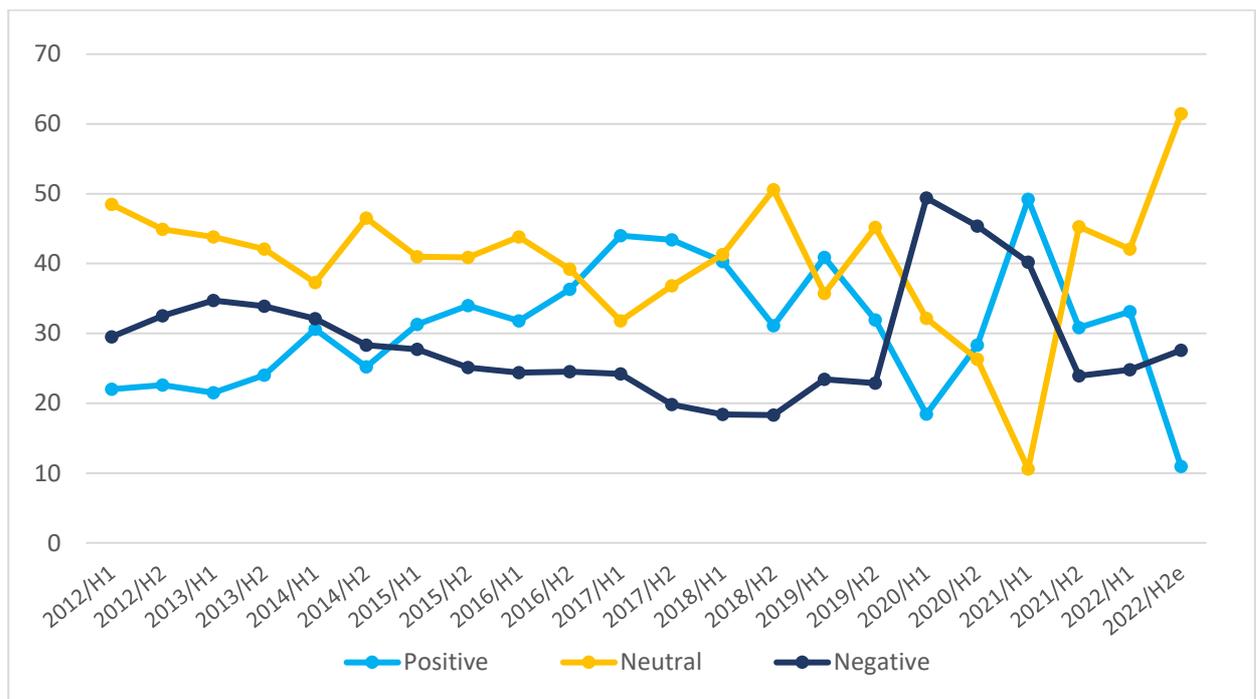
Chart 6 shows that high energy and raw material costs, which are expected to persist or even increase in the near future, resulted in price expectations reaching a value of 39.9, down from 44.9 in the first semester. This slight decrease should not be seen as a reduction of price pressures, but rather as a reduction in the ability of SMEs to transfer the production costs to consumers.

The only business indicator that presents a positive expectation is employment, with a value of 1.2. This can be explained by the fact that SMEs have been experiencing labour shortages for several years and they continue to hire staff.

Rise in neutral answers indicate high level of uncertainty

Chart 7 reports the survey replies' trend about SMEs' expectations and delivers further insights on the SMEs economic perspective for Autumn 2022. If we consider the replies for the second semester of 2022, neutral answers increase at the cost of positive answers, reaching a value of 61.5, the highest record, that highlights a considerable level of uncertainty. Negative replies increase by 2.8, signaling instead the presence of the risk of recession.

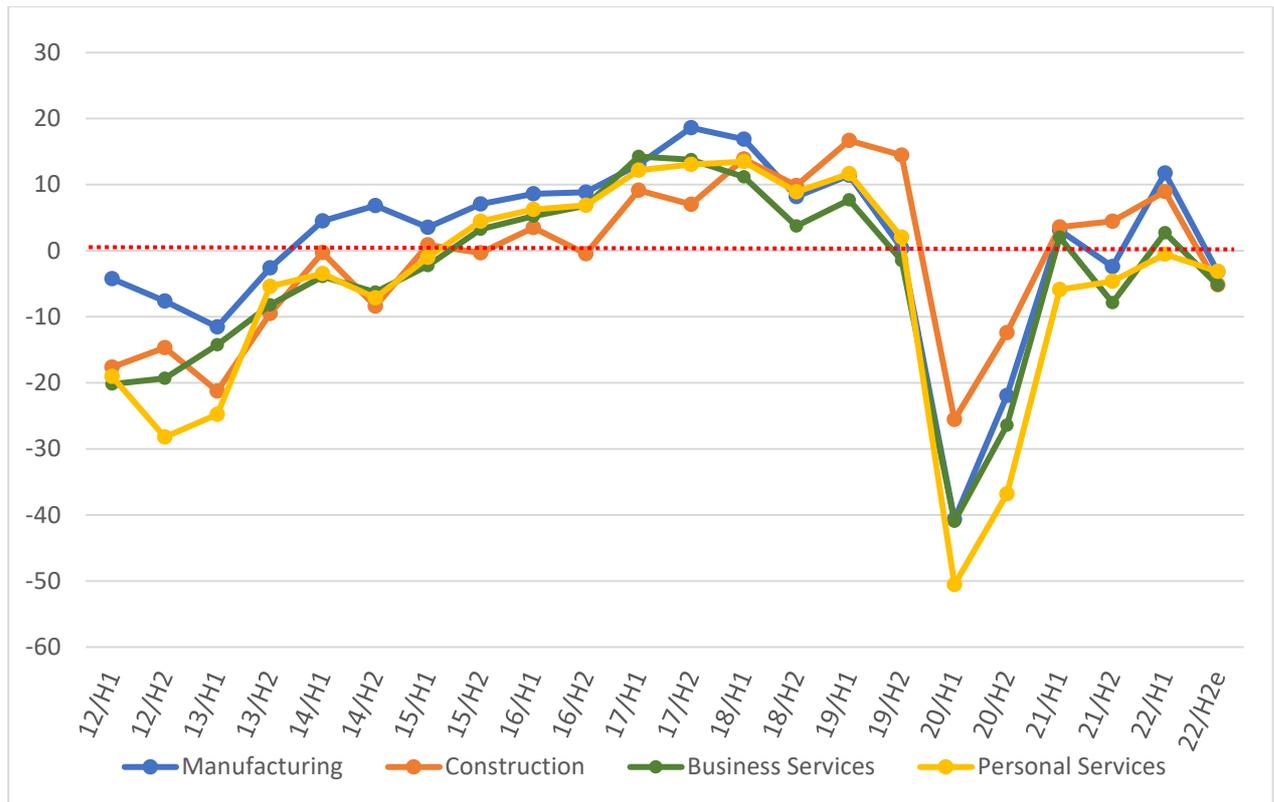
Chart 7 – Overview of survey replies to SMEUnited SME Barometer



Sectors have been differently impacted by latest developments

Turnover shows some interesting sector-specific patterns. Last semester, it increased for each sector, in particular for the manufacturing and business services sectors. The relatively higher level in the construction sector can mainly be attributed to the fact that SMEs in this sector were engaged in renovation and construction of private houses, which has shown a strong demand since the start of the pandemic, supported by low interest rates for mortgages.

Chart 8 – Turnover by sector



By contrast, expectations for the upcoming semester seem to turn around all these sector-specific trends. All the figures are expected to decline, but with different trends for each sector. Both the construction and manufacturing sectors report strong decreases in turnover expectations, scoring -5.2 and -3.2, respectively.

Concerning the construction sector, in addition to rise of building prices, the cost of financing is also increasing due to high interest rates. Both discourage people to invest in renovation and new houses.

In the manufacturing sector, incoming new orders are declining. Low demand is caused by falling investments, reduced purchasing power and high inflation, which increases both input costs and output prices. Export sales are also falling and finished products' inventories are increasing.

At the same time, the current crisis has a milder negative impact on the services' sectors, as they are less dependent on the supply of energy or raw materials.

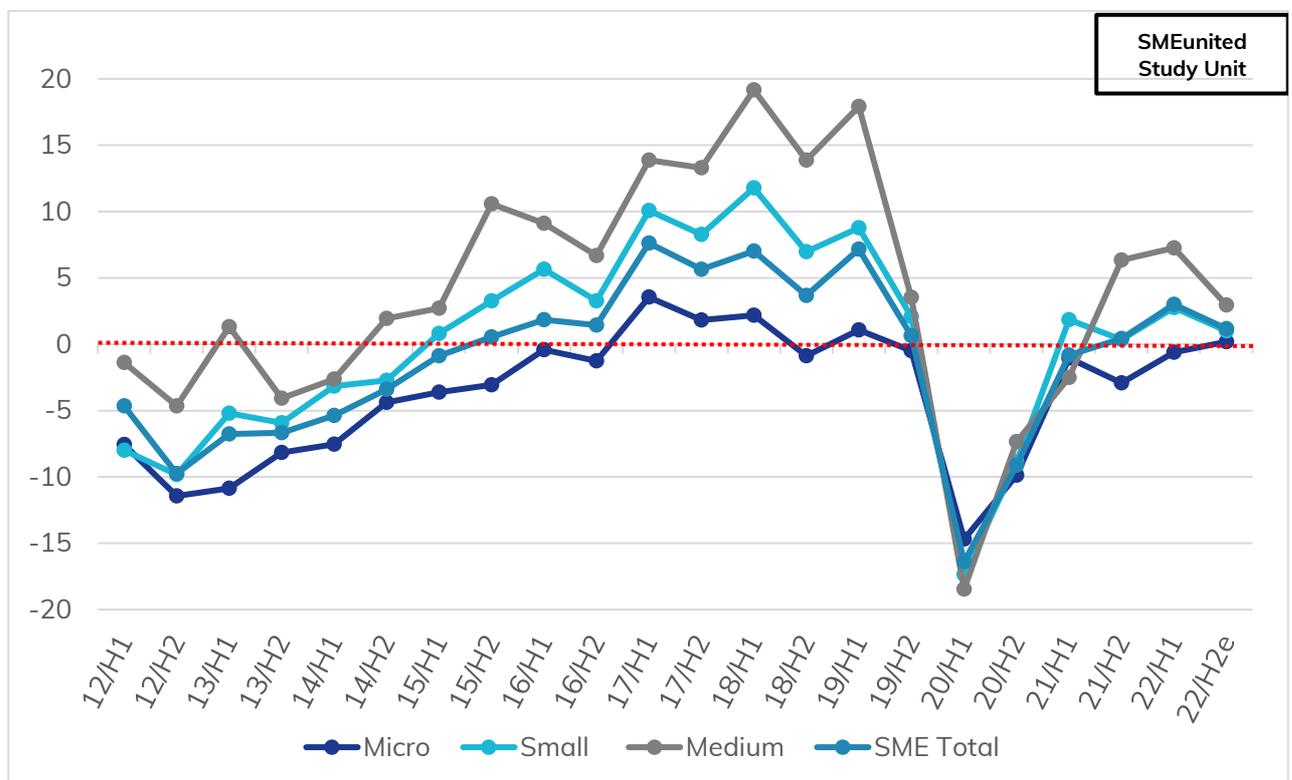


Labour shortages persist for all size classes

During the first semester of 2022, the employment results by size class display an upward trend for all SMEs, since higher turnover and orders led companies to request additional staff. However, despite the improvement, micro enterprises presented a negative value, as they may not have been able to fulfill their demands.

Expectation data shows a discouraging employment picture for SMEs. Micro enterprises still indicate the wish to fill their vacancies. All other size classes instead display downward trends, with less appetite than before.

Chart 8 – Employment by class size



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Conclusions and recommendations

For the first semester of 2022, results showed that recovery was stronger than expected, since they exceeded negative expectations caused by the emergence of the new Covid variants.

However, the Russian invasion of Ukraine, the energy price hikes and the ongoing supply chain disruptions halted the growth path. As a consequence, this daunting economic scenario significantly undermines the business confidence, as shown by the decrease in the Business Climate Index.

Labour shortages remain a concern for SMEs and the figures show that these held back the speed of recovery during the first semester. At the same time, the Barometer shows that companies on average still want to increase employment and fill vacancies, even though expectations for orders and turnover are going down.

This is especially the case for manufacturing and construction, which suffer from high energy and material prices and also from weak investment and increasing financing costs.

To prevent a recession and to mitigate the sharp surge in energy prices, SMEs ask for urgent measures to avoid a strong increase in business closures and bankruptcies. Furthermore, crisis measures should be in line with the objectives of the transition to a greener and more digital economy. Therefore, SMEUnited recommends that policies at European and national level should:

- stabilise energy and commodity markets and protect vulnerable customers;
- offer urgent mitigation measures to compensate for the consequences of energy price hikes;
- 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 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 **May and August 2022**, 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 first semester of 2022 as well as the expectations for the second 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 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 2022

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	21H2	22H1e	22H1	22H2e	21H2	22H1e	22H1	22H2e	21H2	22H1e	22H1	22H2e	21H2	22H1e	22H1	22H2e
Overall	6.9	-7.3	8.3	-16.7	0.0	-10.2	2.1	-15.9	12.0	-5.5	10.9	-16.5	0.9	-3.6	15.9	-16.2
Turnover	0.1	1.5	7.8	-1.7	-8.7	-5.0	-1.8	-5.1	4.4	2.1	12.2	-0.3	11.4	14.5	22.2	8.3
Employment	0.4	2.5	3.0	1.2	-2.9	-1.2	-0.6	0.2	0.4	1.9	2.8	1.0	6.4	9.2	7.3	3.0
Prices	23.2	34.3	44.9	39.9	20.1	31.9	41.8	41.1	25.3	35.5	47.0	40.3	31.5	38.4	48.8	39.2
Investments	-4.3	-7.1	-7.4	-14.3	-9.8	-11.8	-13.0	-18.8	-2.6	-6.6	-5.0	-14.9	2.0	2.6	6.8	-3.7
Orders	-1.4	-0.3	0.5	-8.9	-8.5	-5.0	-7.2	-10.0	2.7	-0.1	4.1	-7.8	7.9	9.0	11.2	-2.3

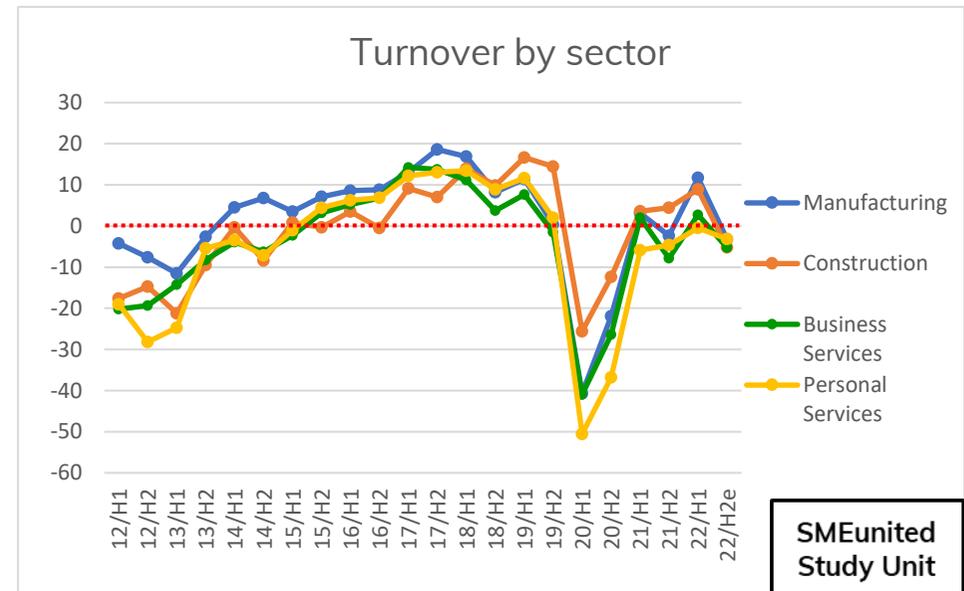
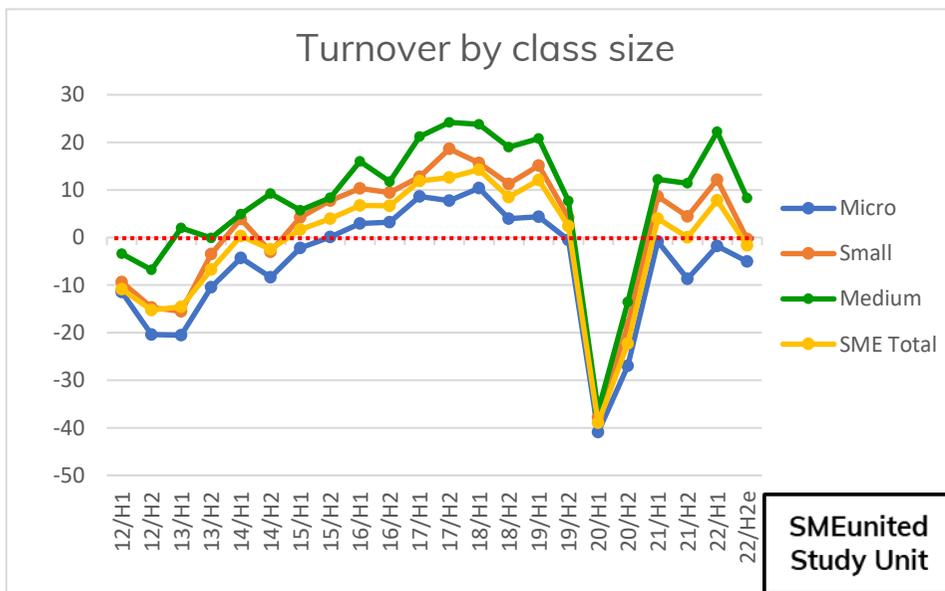
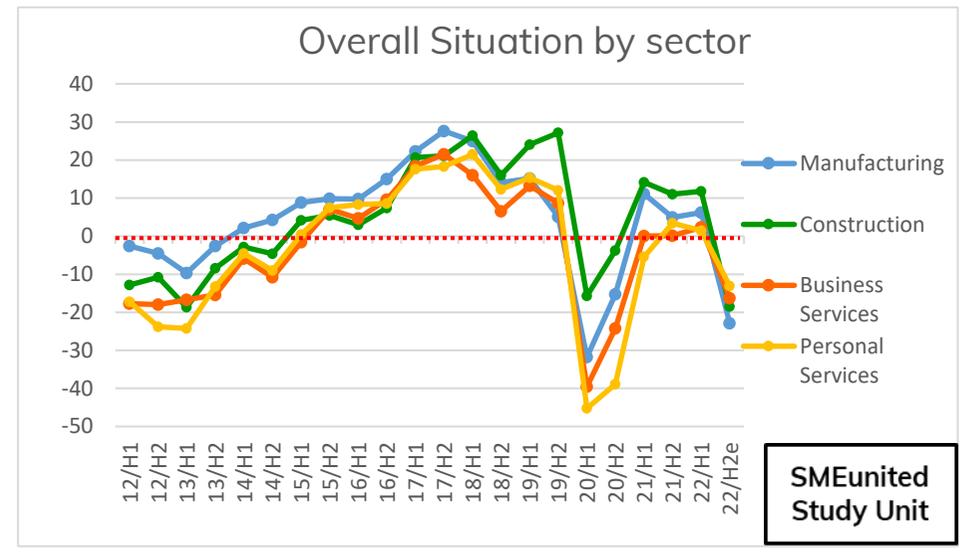
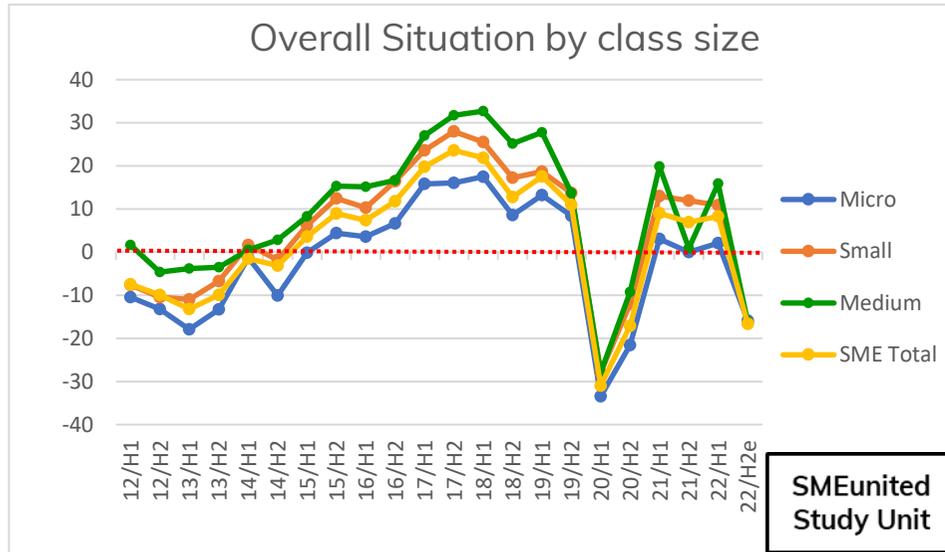
	Manufacturing				Construction				Business Services				Personal Services			
	21H2	22H1e	22H1	22H2e	21H2	22H1e	22H1	22H2e	21H2	22H1e	22H1	22H2e	21H2	22H1e	22H1	22H2e
Overall	5.0	-6.0	6.2	-22.9	11.0	-4.5	11.8	-18.5	0.1	-10.0	2.3	-16.3	3.4	-11.6	1.5	-13.1
Turnover	-2.4	5.9	11.8	-3.2	4.5	1.0	8.9	-5.2	-7.8	-5.3	2.7	-5.2	-4.6	-7.1	-0.5	-3.1
Employment	-1.1	1.8	2.3	-0.1	0.8	0.3	0.3	-2.7	-1.2	0.0	3.0	1.3	-5.4	-0.2	1.5	1.8
Prices	23.8	38.7	49.5	39.9	26.8	36.6	48.1	39.6	21.1	31.5	45.0	43.8	22.4	28.4	32.2	32.1
Investments	-5.0	-5.5	-5.7	-15.7	-1.9	-6.1	-8.1	-20.0	-7.5	-13.0	-10.1	-15.3	-4.7	-10.6	-7.7	-11.6
Orders	-2.1	1.0	3.5	-8.3	3.4	0.2	3.9	-16.6	-9.3	-7.3	-6.4	-9.0	-6.7	-6.3	-4.9	-4.5

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

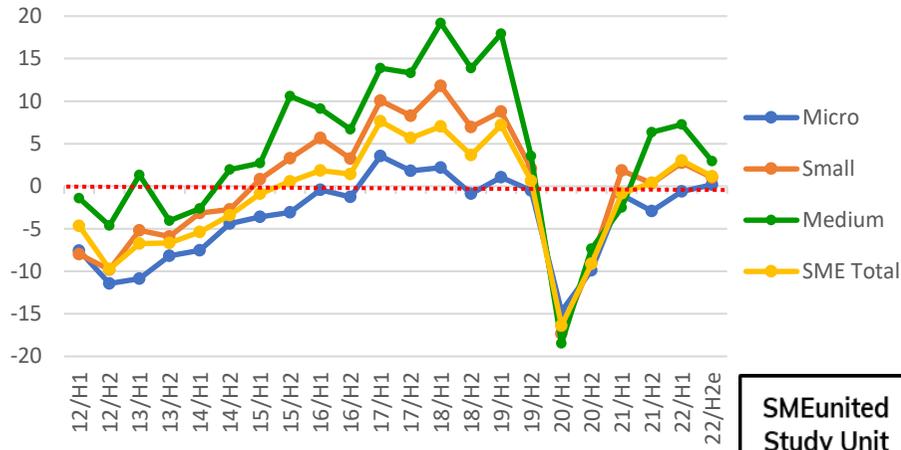
	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	21H2-21H2e	22H1-22H1e	21H2-21H2e	22H1-22H1e	21H2-21H2e	22H1-22H1e	21H2-21H2e	22H1-22H1e
Overall	-1.1	15.6	-4.6	12.3	2.2	16.4	-14.7	19.5
Turnover	-12.8	6.3	-18.3	3.2	-10.3	10.1	-8.5	7.7
Employment	-8.6	0.5	-7.4	0.6	-7.7	0.9	-13.5	-1.9
Prices	-5.9	10.6	-6.5	9.9	-4.3	11.5	-3.6	10.4
Investments	-8.1	-0.3	-11.1	-1.2	-6.7	1.6	-7.6	4.2
Orders	-10.5	0.8	-15.4	-2.2	-7.6	4.2	-5.4	2.2

	Manufacturing		Construction		Business Services		Personal Services	
	21H2-21H2e	22H1-22H1e	21H2-21H2e	22H1-22H1e	21H2-21H2e	22H1-22H1e	21H2-21H2e	22H1-22H1e
Overall	-2.7	12.2	5.9	16.3	-6.7	12.3	-6.2	13.1
Turnover	-18.4	5.9	-2.4	7.9	-17.8	8.0	-16.7	6.6
Employment	-7.7	0.5	-4.7	0.0	-8.9	3.0	-9.8	1.7
Prices	-10.9	10.8	-2.9	11.5	-3.3	13.5	2.4	3.8
Investments	-10.0	-0.2	-1.7	-2.0	-11.1	2.9	-7.5	2.9
Orders	-14.8	2.5	0.1	3.7	-17.3	0.9	-18.8	1.4

Results – European Crafts and SME Barometer – Autumn 2022

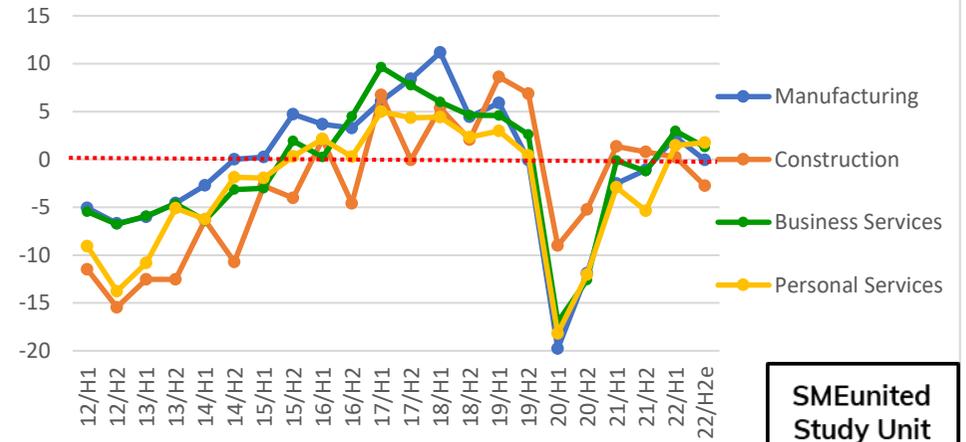


Employment by class size



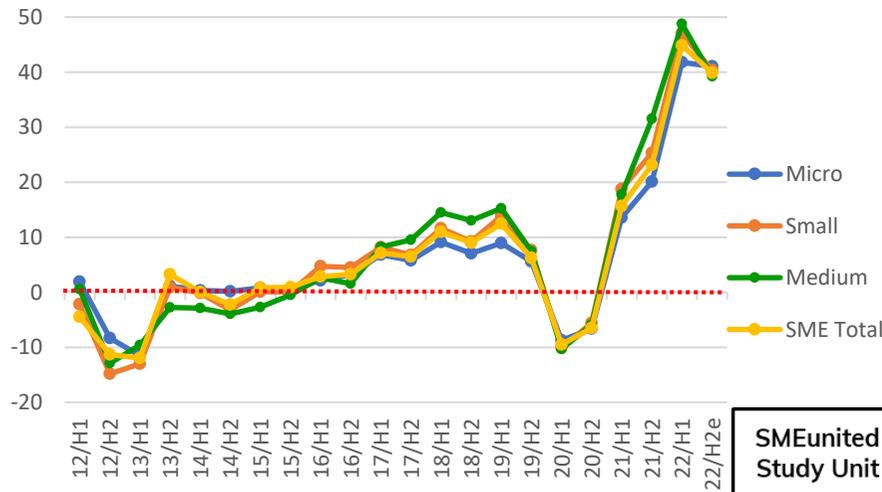
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Employment by sector



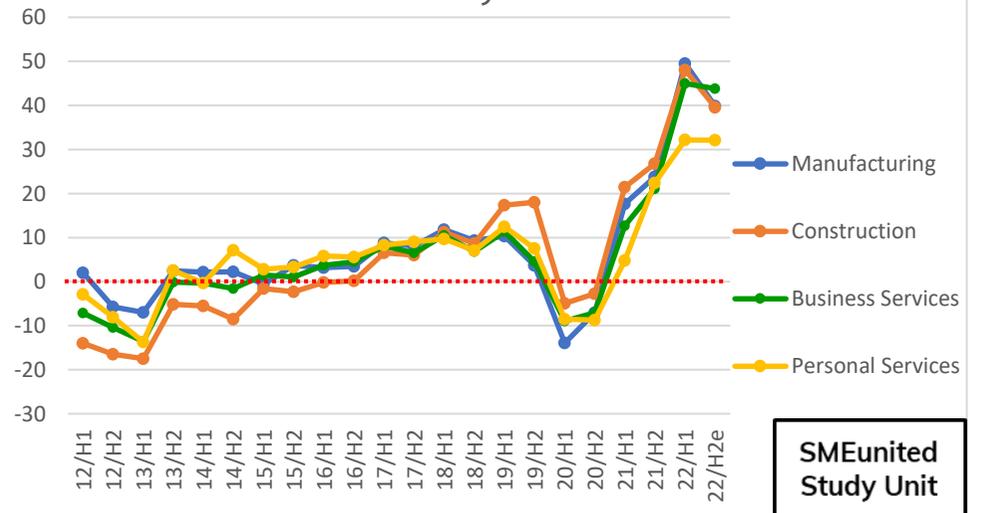
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Prices by class size



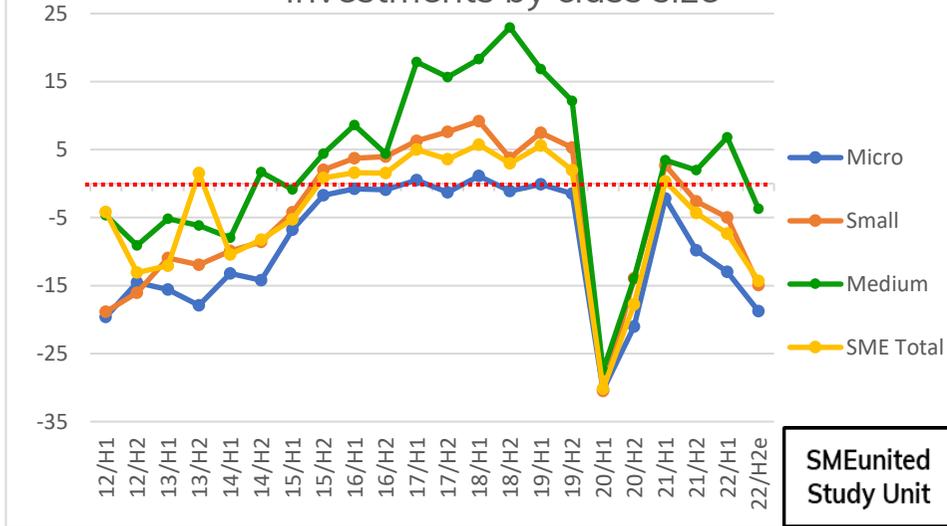
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Prices by sector



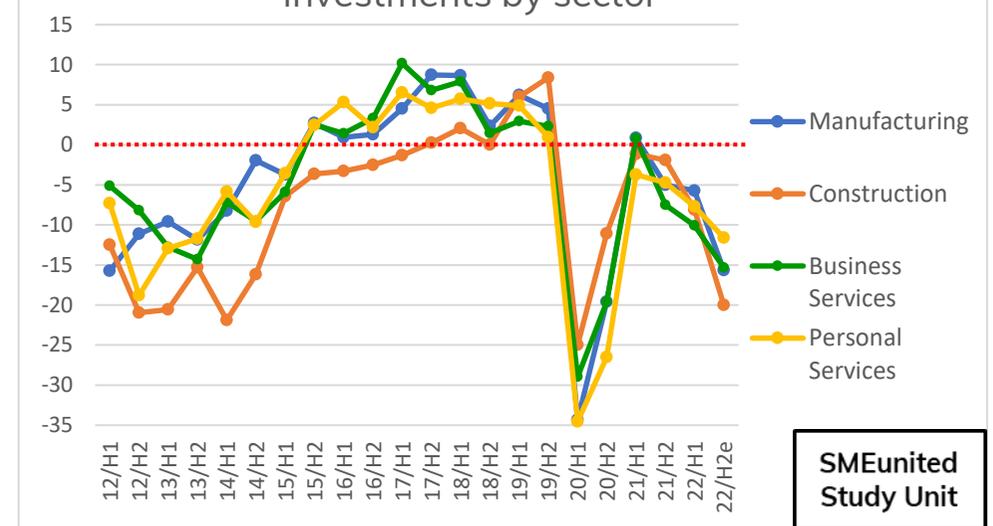
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Investments by class size



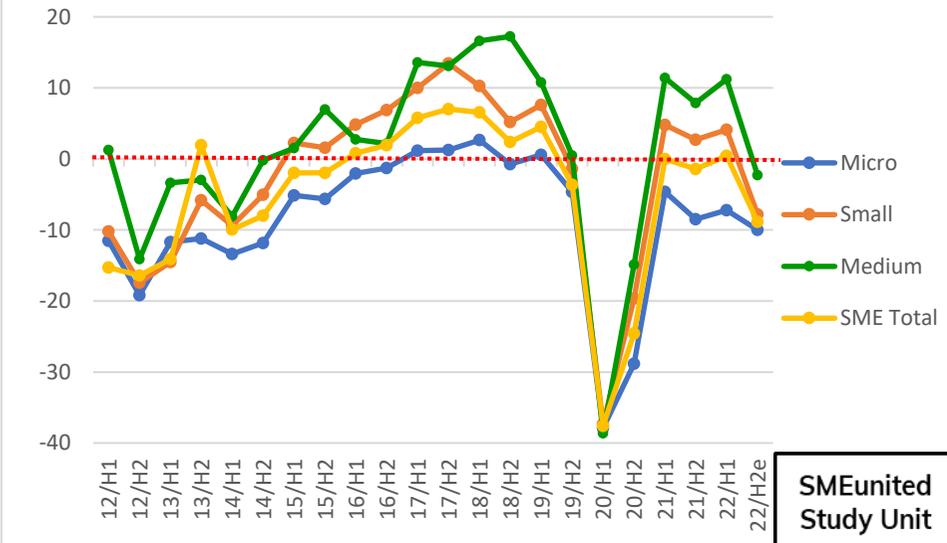
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Investments by sector



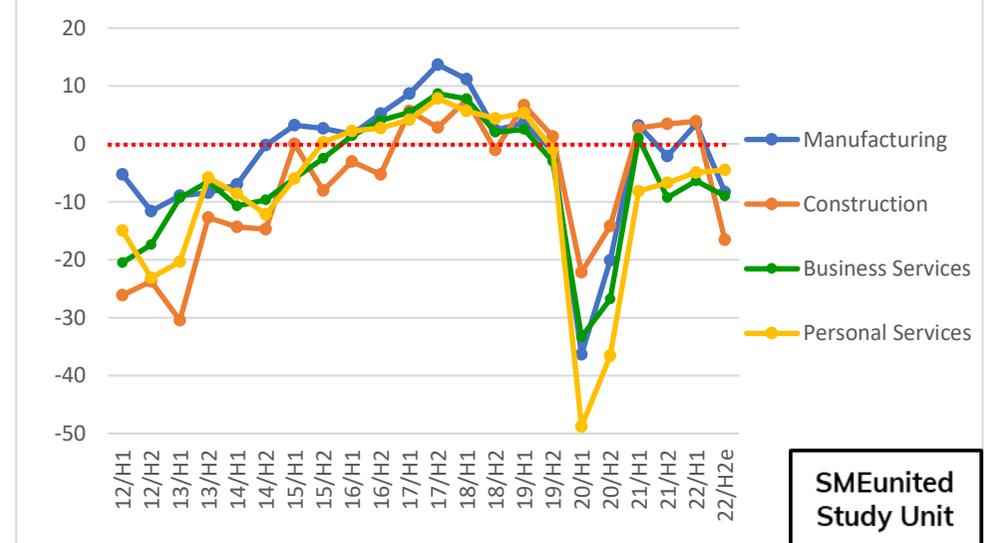
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Orders by class size



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Orders by sector



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