

**SPRING
2021**

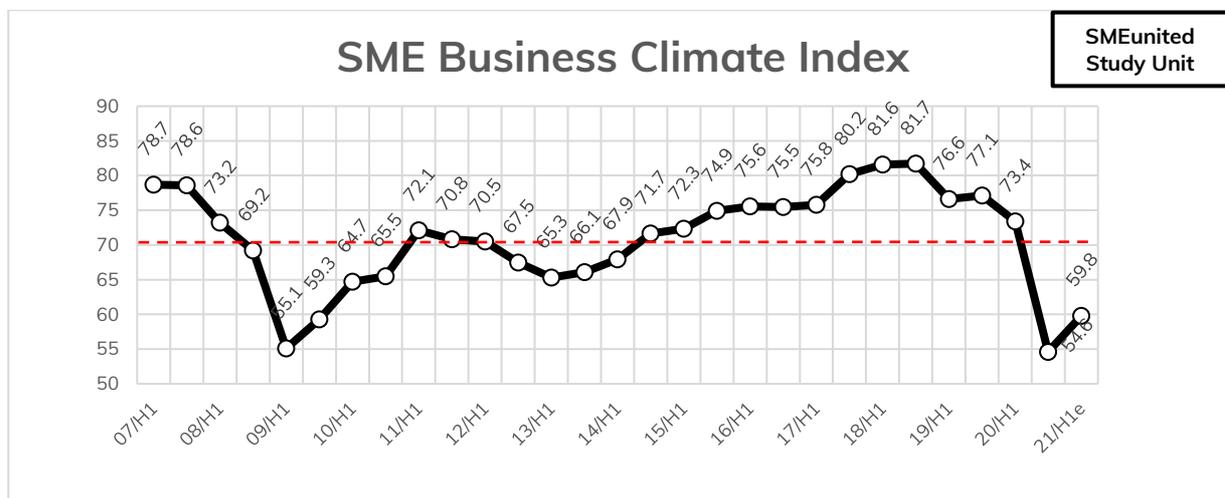
**The SME Business
Climate Index and
EU Craft and SME
Barometer**

SME Business Climate Index raises to 59.8

SMEs' confidence shows only slow recovery

The latest SME Business Climate Index for the European Union reports an improvement in SMEs' confidence in the state of the economy. Since last autumn, the percentage of SMEs expecting a positive or neutral economic environment raised by 5.2 points, from 54.6% to 59.8%. Despite the increase, this result classifies among the lowest figures recorded in Europe since the 2009 financial crisis.

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 data collected depict wide variations in the national-level climate indexes. Across European countries, the confidence of SMEs in the state of the economy spans from a minimum of 30.2 to a maximum of 75.5 percentage points. Additionally, heterogeneity is also visible in the evolution of the national-level climate index. Italy, Spain and France, all strongly affected by the first outbreak of COVID-19, observe a general improvement; on the other hand, while Germany and Austria outline a slight deterioration in confidence. Nonetheless, important caveats in the interpretation of these results have to be made.

Firstly, the confidence levels on the current and expected state of the economy are influenced by the two pandemic waves of COVID-19 that hit European countries at the beginning and at the end of 2020.

While the lockdown and the reduced economic activity of March-May triggered increasingly negative perspectives regarding the magnitude of the economic recession, the deconfinement measures and business-as-usual operations of June-October positively reversed expectations. However, the outbreak of the second pandemic wave in late autumn of 2020, with the consequent reimposition of restrictions, reduced economic activities and downturned expectations. The described phenomena are visible in the registered uncertainty and in the heterogeneity of the results gathered by this survey.

Secondly, the timing of the survey largely impacts the barometer. The results are strongly influenced by variations in surveys length and by the data collection period, which are decided by our member organisations. From our analysis, it emerges that data collected between September and October (before the second pandemic wave) reported more optimistic expectations. While organisations collecting SMEs data between November and January, influenced by the hit of the second pandemic wave, reported a negative situation with pessimistic expectations for the next semester.

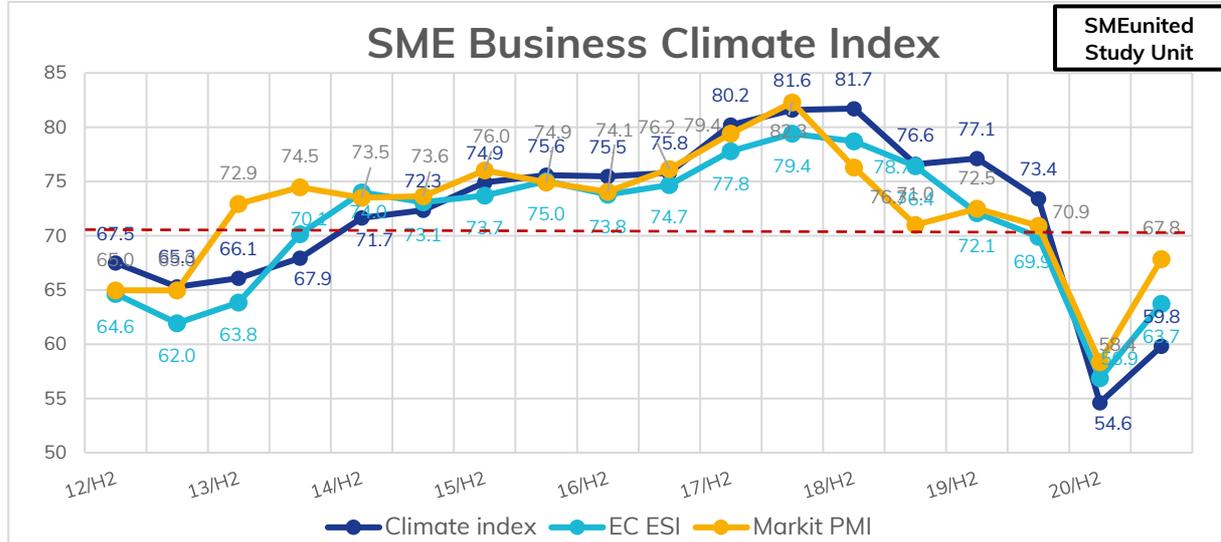
Thirdly, the confidence level in the state of the economy reported by SMEs is partially influenced by the ability of national governments to properly and promptly react to the crisis. Illustration is given by how the economic stability of Northern countries helped limit the catastrophic repercussions of COVID-19, while the relative economic and sanitary fragilities of Southern and Peripheral areas contributed to widen the impact of the crisis on SMEs activities.

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

The reported increase in confidence of the SME Business Climate Index is in line with the other business confidence indexes. Climate indexes' positive reactions might find explanation in the partial return to business-as-usual operations during the deconfinement period and in the trust placed in national support schemes aimed at containing COVID-19 effects.

Although similar in trends, the three indexes differ in the scale of their upturn. For the second time, the SME Business Climate Index reports the lowest value across the three indexes. The rationale has to be found in the particularly severe impact of governments' impositions on SMEs' service sector. In detail, the lockdowns and the contraction of consumers' demand forced non-essential businesses, such as personal services and hospitality businesses, to reduce their activities; such effect is less pronounced in the industrial sector and in manufacturing, which could continue with business-as-usual operations.

Chart 2 – SMEUnited BCI, EC ESI and Markit PMI



The EC’s ESI measures five confidence indicators linked to different sectors. The average of last six months ESI values has been 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.

These results find support in the survey carried out in 132 countries by the International Trade Centre in 2020¹. From the evidence collected, two-thirds of micro and small firms reported that the crisis had strongly affected their business operations, and one-fifth indicated the risk of shutting down permanently within three months.

Chart 3 shows the SME Business Climate Index applied in the “North and Centre”² and in “South and periphery”³.

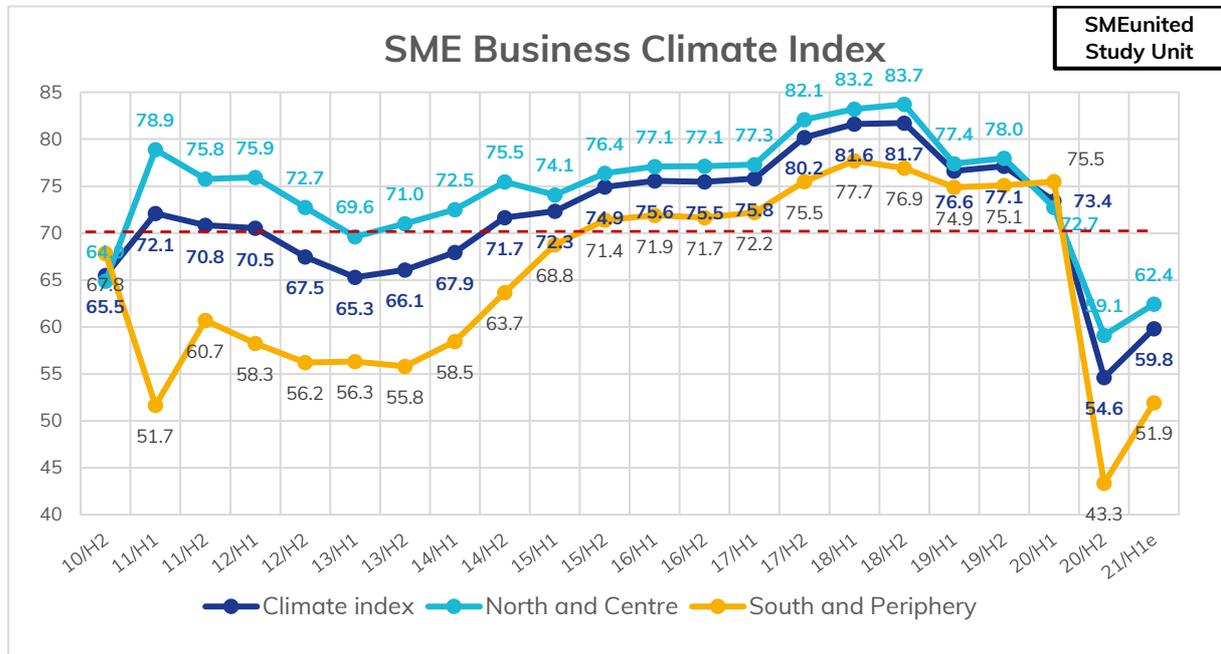
Despite 2021 first semester growth in SMEs’ confidence of 5.2 points from 54.6% of the previous term, the results prove that the gap between Northern and Southern economies continues.

¹ ITC (2020), SME Competitiveness Outlook 2020: COVID-19: The Great Lockdown and its Impact on Small Business, ITC, Geneva.

²The “Northern and central group” includes Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia and Sweden.

³ The “Southern group” includes Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain.

Chart 3 – BCI for the “North and Centre”, “South and periphery”



Nonetheless, it is necessary to outline that the dimensions of the gap between the two areas have considerably decreased when compared to the second semester of 2020. The South and Periphery grew by 8.6 points while the North and Centre only raised by 3.3 points. As a result the gap has been reduced by 5.3 to 10.5 points.

Concerning South and Periphery, the largest economies, Italy and Spain, benefitted from the re-openings of the second semester of 2020. Additionally, the strong impulse to the economic activities of the period of deconfinement counterbalanced the negative effects of a stagnating summer season, even in those economies strongly based on tourism, such as Greece and Croatia.

Regarding the North and Central area, most of the countries provided only timid signals of recovery but more favourable expectations. It is worth to mention the opposite trends of the two major economies: while France reports an increase more in line with the numbers of Southern economies, Germany provides evidence of a slight decrease in SME’s confidence in the state of the economy.

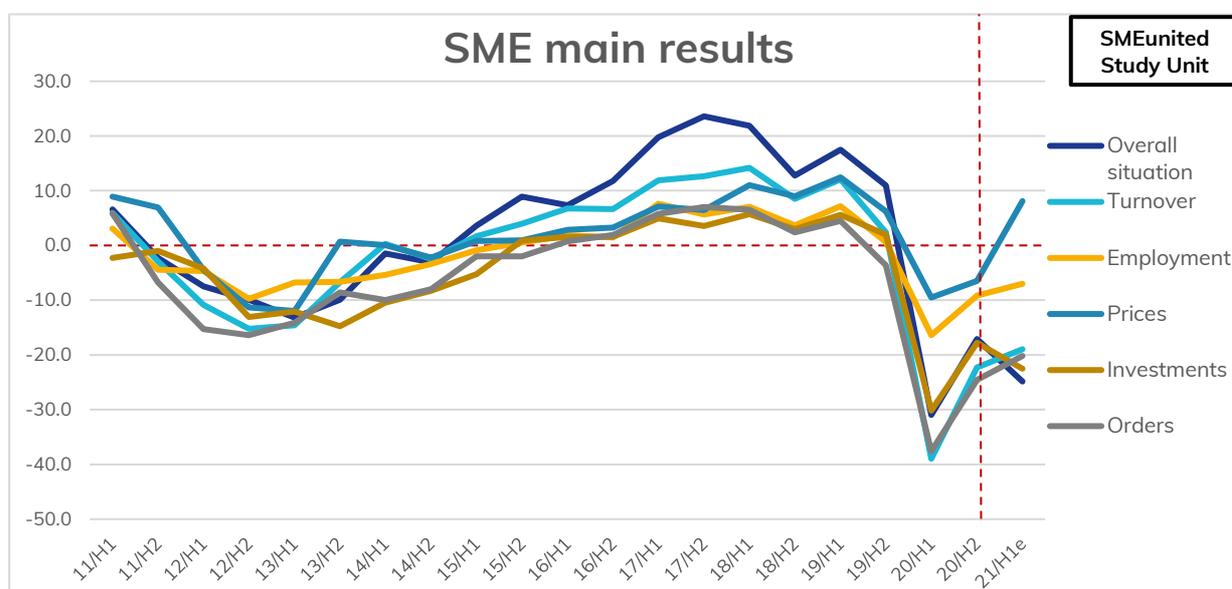
SME Barometer main results: no fast recovery expected

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

Results Winter 2020: SMEs performance only recovers part of losses

Even though an improvement in the general economic situation is visible, only a small part of the losses from last semester could be compensated.

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



In the second semester of 2020 an upturn of 13.9 points in the **overall situation** is visible (from -31.0 to -17.1), however, despite recovery, the reported figure still has negative sign.

Turnover shows the largest upward movement (16.7 points) passing from -39.0 to -22.3; **investments and orders** increase respectively by 12.4 and 13 points to touch respectively -17.8 and -24.6; **employment** raises 7.3 points up to -9.1, while **prices** reach -6.5.

It is worth to note that employment figures report more mitigated values than most of the other categories. The national support schemes and the recovery in turnover avoided

⁴ More information on the methodology can be found on page 12.

strong reductions in SMEs' workforce and, thus, diminish the negative impacts of the health and economic crises on workers.

The general situation improved since last semester, as it is visible from the less negative figures recorded with this survey. Nevertheless, after the second wave in autumn / winter 2020, expectations for spring of 2021 lost the impulse of the first recovery. The resulting decrease in the pace of the rebound is a clear sign of the long pattern necessary to fully recover.

Main results for second half of 2020 are behind expectations

The comparison between results and expectations in Table 1 indicates that SMEs were too optimistic in their predictions for the second semester of 2020.

Table 1 – Expectations and actual results for the second semester of 2020

	Expectations 20/H2e	Results 20/H2	Δ (R-E) 20/H2
Overall	-17.7	-17.1	0.6
Turnover	-13.4	-22.3	-8.9
Employment	-4.7	-9.1	-4.4
Prices	4.0	-6.5	-10.5
Investments	-21.9	-17.8	4.1
Orders	-14.0	-24.6	-10.6

This result can be explained by the impossibility to forecast in advance the scale of the effects of the health and economic crisis. In most of the categories, a faster recovery was predicted but the strike of the second pandemic wave in autumn / winter 2020, with the reintroduction of lockdowns, limited the upturn in many economic sectors.

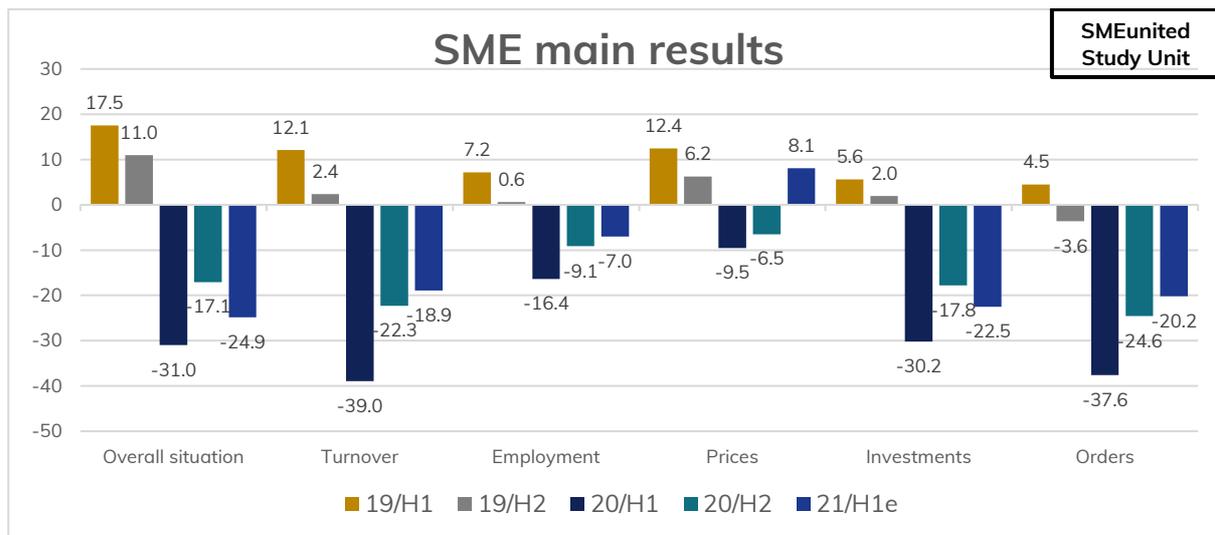
Furthermore, the added uncertainty on vaccination campaigns and deliveries along with the implementation of the European and national recovery plans complicate future forecasts.

Expectations for the current semester show light signs of recovery

In the second semester of 2020 and in the first semester of 2021, the recovery in SMEs' confidence in the state of economy is signalled with an upward trend in most of the

categories (Chart 7). While the strong upturn of the second semester of 2020 outlines the willingness to return to an economic framework ex-ante COVID-19, the recovery is forecasted to be timid for the spring of 2021. The reduction in the pace of recovery might be due to the rise in uncertainty regarding the virus behaviour and the vaccine delivery and campaigns.

Chart 7 – SMEUnited Barometer aggregated values for the 6 business categories



Focusing on the figures for the “overall situation”, a downturn of about 8 points is expected for the first semester of 2021 (from -17.1 points to -24.9). This bell-shaped trend proves to be in counter-tendency with regard to the other categories reported in the graph, where an increasing trend could be noticed.

On one hand, the decrease in the “overall situation” might stem from the large uncertainty around the general economic framework, along with awareness of the long pattern necessary to completely recover from the economic downturn caused by the pandemic. On the other hand, the bell-shaped trend of the “overall situation”, in opposition to the trends of the other reported categories, might be linked to SMEs’ trust in their resilience and in the capacity of their own company to exit the crisis despite the negative overall environment.

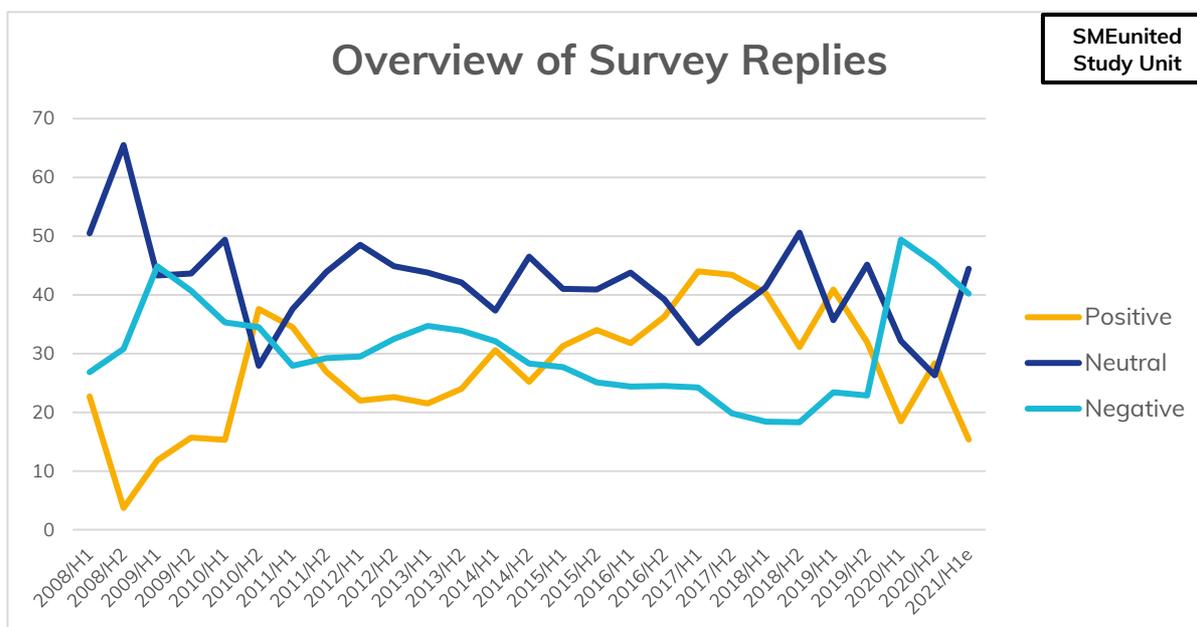
The only other category showing a similar pattern to the overall situation is investments. The reasons to justify this trend are different: firstly, “investments” has historically shown higher sensitivity to the economic climate; secondly, SMEs generally have conservative views regarding the estimation of the scale of future investments; finally, entrepreneurs might want to avoid unnecessary risks for their business due to the perceived uncertainty about the evolution of future events.

Trend of replies confirms high level of uncertainty

Chart 8 reports the trends of the EU Craft and SMEs Barometer survey’s replies on “overall situation” and delivers further insights on the SMEs’ economic perspective for the first semester of 2021.

The strong negative outlook of the first months of 2020 is partially mitigated in the second half of the year by two elements: the 4 points reduction in negative replies (45.4%, from 49.4%) and the 10 points upturn in positive replies (28.3%, from 18.4%). On the other hand, the large increase of neutral replies (44.4%, from 26.3%) and the downturn of positive replies (15.4%, from 28.3%) in the first semester of 2021 highlight the high uncertainty perceived by SMEs for the incoming period.

Chart 8 – Answers on “overall situation”



Looking at the SME Business Climate Index and EU Craft and SME Barometer for the first semester of 2021 a discrepancy is visible: the Climate Index forecasted improvement is not backed by the Barometer, which rather signals a downturn in the overall situation. Justification lays in the methodologies adopted to calculate the two indexes: while neutral and positive replies are used to grasp SMEs’ confidence in a positive-neutral state of the economy (Climate Index), negative and positive answers on “overall situation” are used to calculate the Barometer.

Sectors development: encouraging reprise in all sectors

As a final analysis, a comparative study between sector turnover and employment is carried out.

Chart 9 – Turnover by sector

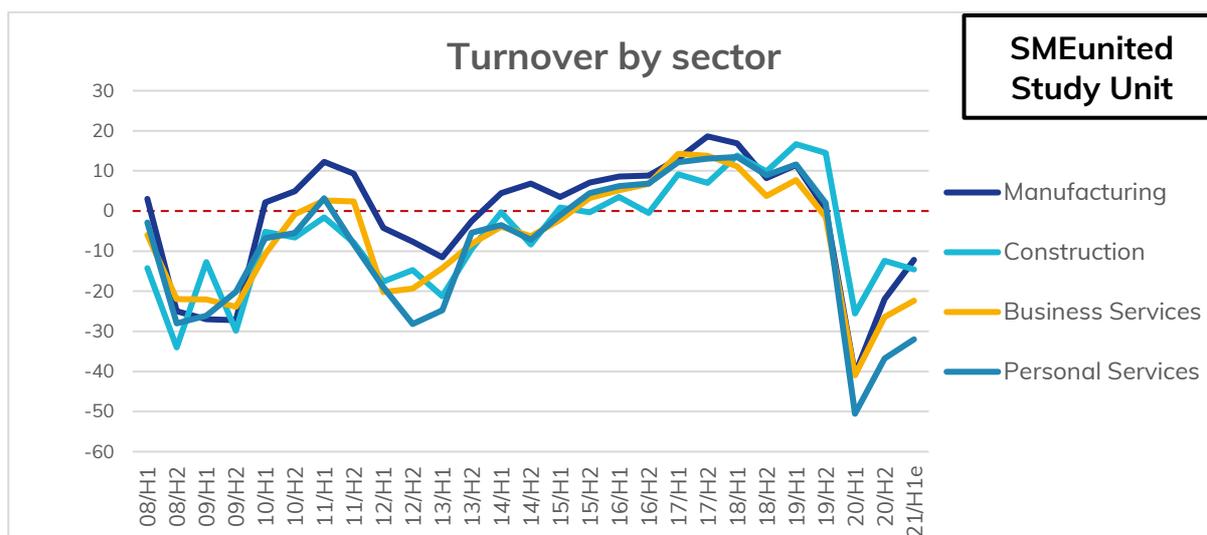
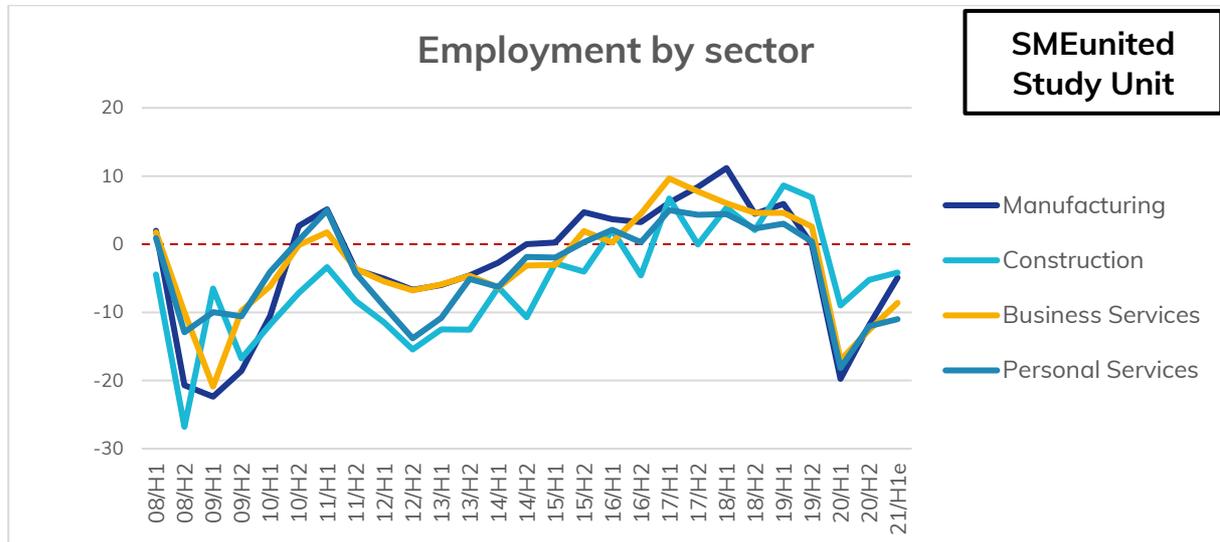


Chart 9 reports variations in turnover according to the economic sector. 2020 second semester’s figures show an increase in turnover and employment in all categories, a trend expected to be sustained with less impetus during the spring of 2021. Although a turnup is visible, the results for the second semester of 2020 are still negative, with personal and business services achieving the lowest scores in turnover, respectively -36.8 and -26.4 points. The lockdowns and the consequent shrink in consumers’ demand affected business and personal sectors, mainly constituted by firms in retail and wholesale trades, hospitality, food services and downstream activities.

The manufacturing sector experienced strong variations over 2020. In fact, the businesses’ conversion to satisfy the new sanitary needs of the society and the implementation of social distance pushed to -41 points this category’s results in the first semester of 2020. Nonetheless, the re-establishment and the renewal of supply chains after the reopening of the national borders, along with the loosening of the sanitary restrictions during summer, triggered an increase up to -22 points.

Chart 10 – Employment by sector



The construction sector was the least affected by the crisis and experienced a considerable increase of 13.2 points in turnover in the second semester of 2020. However, regarding the first semester of 2021, the sector shows surprisingly negative expectations. The strong connection with the seasonality might partially explain the expected slowdown for the first cold months of 2021. Additionally, the accomplishment of houses' reconversions to smart working and the considerable losses perceived in 2020 may contract the demand for construction services by privates, the larger share of SME construction sector's customers.

The reduction of demand due to the decrease of consumption and lockdowns in many Member States had severe influence on SMEs, due to the fragility entailed in the undertaken business activities. Furthermore, the fear of contagion and social distancing imposed substantial losses and costs on SMEs. Moreover, conversion to digital working created costs due to lack of digital education and in implementing the necessary equipment and technologies. Regardless the difficulties faced, SMEs were reluctant in decreasing the workforce (Chart 10). Partially sustained by national support schemes and by the turnover reprise of the second semester of 2020, the small scale of employment cuts is not comparable to the drops visible in all the other categories.

Conclusions and recommendations

Although deconfinement is the main reason behind the positive figures of the second semester of 2020, the results don't match with previous period's expectations. The second pandemic wave, with the reimposition of lockdowns, decreased the positive effect of summer-autumn deconfinement. Furthermore, the lower optimism in expectations proves businesses' low confidence in a quick end of the sanitary crisis and in a full recovery from the economic downturn for 2021.

The SMEUnited Business Climate Index shows an encouraging pick-up for the first semester of 2021. In detail, Southern and Peripheral areas show larger effects of the deconfinement from the first lockdown than Northern and Central countries, where the solidity of the sanitary system didn't require as strict impositions. Additionally, the gap generated in the first semester of 2021 was reduced thanks to the increase of 8.6% in South and Peripheral economies.

In spite of the partial recovery of second semester of 2020, the results are comparable to the worst downturn of the 2009 financial crisis. While the sanitary restrictions, lockdowns and consequent contraction in consumer demand had strong negative effects, especially in business and personal services, deconfinement triggered encouraging pick-ups across all sectors. Meanwhile, the less negative numbers for employment suggest how the national support schemes and the turnover pick-up supported maintaining SMEs' workforce levels.

The recovery is forecasted on a slow path and to allow SMEs to pass through the uncertainty of this crisis period, to restart investing and job creation, policies at European and national level should:

- continue with crisis measures as long as it is necessary;
- provide instruments to allow businesses with a positive business perspective to stay solvent;
- ensure that unemployed or employees in short term working schemes can benefit from training measures;
- use the Recovery and Resiliency Facility to support needed reforms and to crowd in investments for the green and digital transition;
- involve social partners and SME organisation in the design and 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 a level playing field in relation to third markets and within the single market by enforcing existing rules and improving fairness as regards platform economies 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 September 2020 and January 2021, which gives quite a recent picture of the development and expectations of SME owners all over Europe.

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

For each of these groups the Barometer provides **balanced figures** on the following categories: **overall situation, turnover, employment, prices, investment and orders**, where balanced means the difference between businesses that answered the questions about their expectations in these six categories in a positive or negative manner (balance = positive answers - negative answers). In order to get European figures from different national surveys, national results have been weighed with employment figures.

This Barometer presents the results (experiences) for the second semester of 2020 as well as the expectations for the first 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 facts that, for all Member States, we do not have data significant enough from a statistical perspective and furthermore, that the presentation of national data from SME surveys is a prerogative of our national organisations that are collecting them.

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Results – European Craft and SME Barometer – Spring 2021

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	20H1	20H2e	20H2	21H1e	20H1	20H2e	20H2	21H1e	20H1	20H2e	20H2	21H1e	20H1	20H2e	20H2	21H1e
Overall	-31.0	-17.7	-17.1	-24.9	-33.5	-19.0	-21.6	-28.2	-27.9	-18.0	-12.0	-23.9	-27.9	-17.9	-9.3	-19.1
Turnover	-39.0	-13.4	-22.3	-18.9	-40.9	-15.9	-27.0	-23.2	-37.8	-13.6	-18.4	-18.0	-36.4	-11.0	-13.6	-10.8
Employment	-16.4	-4.7	-9.1	-7.0	-14.7	-5.1	-9.9	-8.2	-17.3	-7.2	-8.9	-7.7	-18.5	-7.9	-7.4	-4.4
Prices	-9.5	4.0	-6.5	8.1	-8.7	-0.6	-6.6	7.0	-10.1	-2.3	-5.6	8.1	-10.3	-1.6	-5.8	10.8
Investments	-30.2	-21.9	-17.8	-22.5	-30.4	-25.2	-21.0	-25.8	-30.5	-25.0	-13.9	-21.8	-27.5	-21.9	-14.0	-15.3
Orders	-37.6	-14.0	-24.6	-20.2	-37.9	-16.4	-28.8	-23.7	-37.3	-15.1	-19.6	-19.1	-38.6	-13.3	-14.9	-14.0

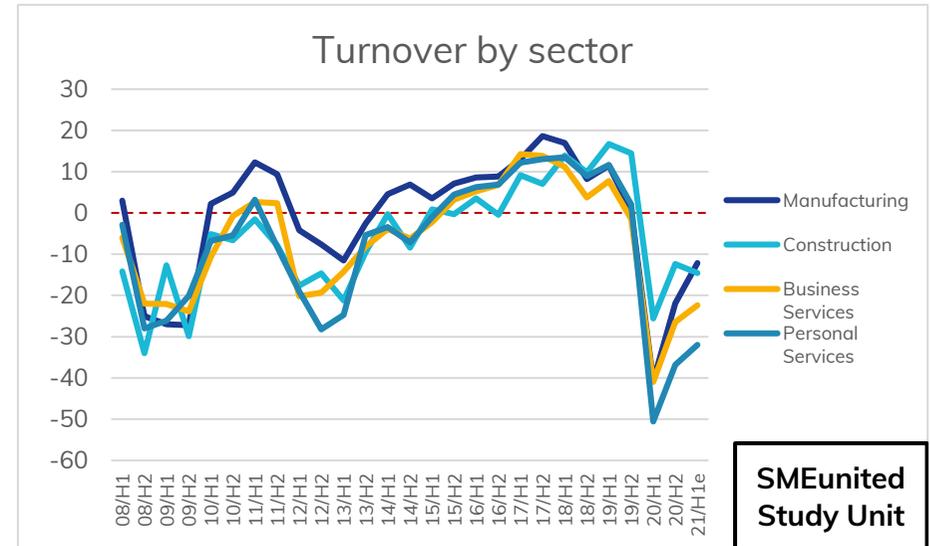
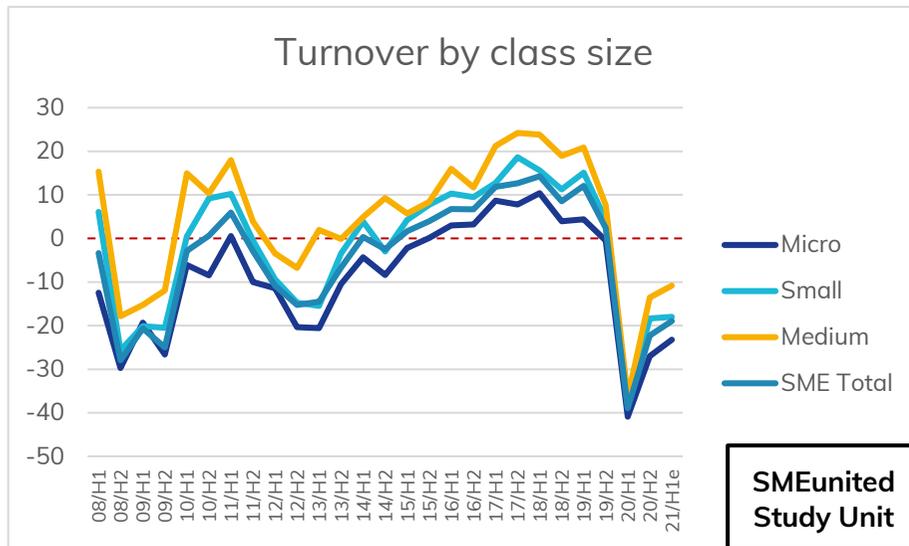
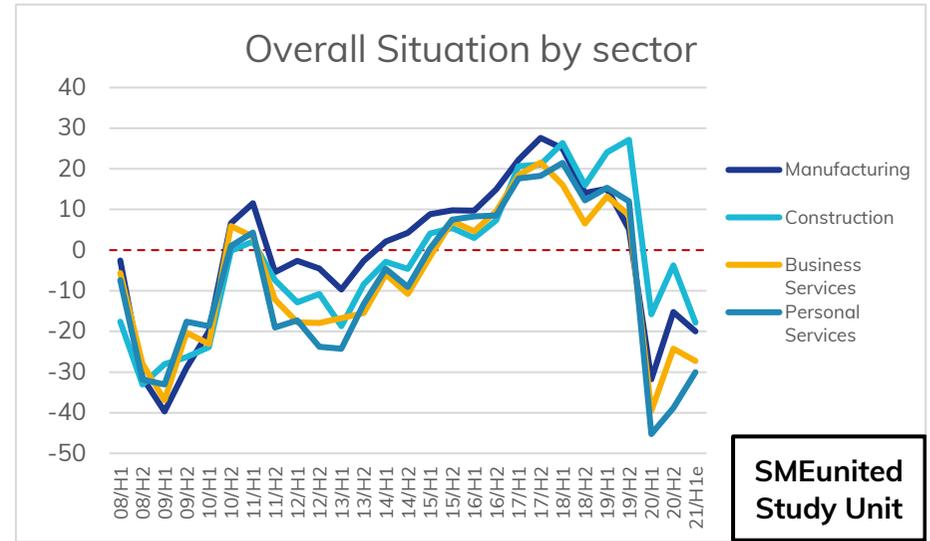
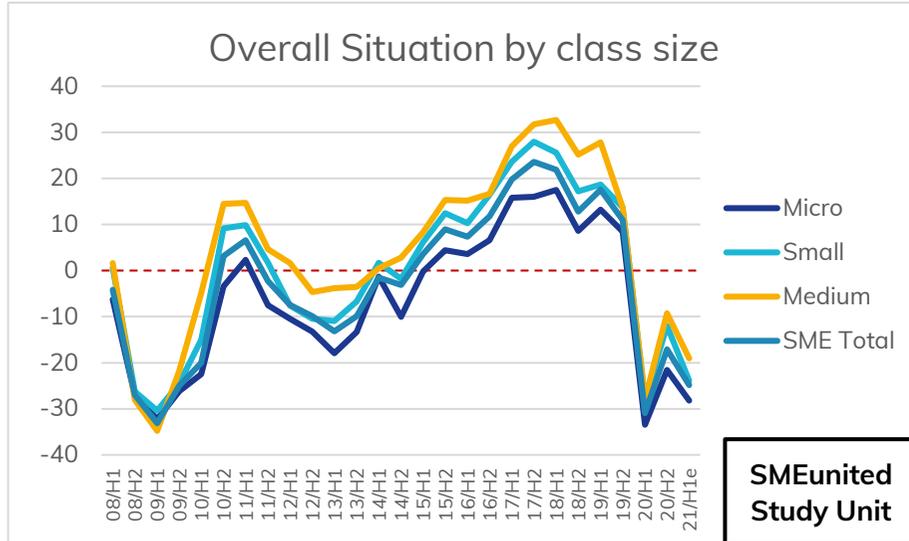
	Manufacturing				Construction				Business Services				Personal Services			
	20H1	20H2e	20H2	21H1e	20H1	20H2e	20H2	21H1e	20H1	20H2e	20H2	21H1e	20H1	20H2e	20H2	21H1e
Overall	-31.8	-21.0	-15.2	-20.0	-15.7	-16.7	-3.8	-17.8	-39.5	-14.0	-24.2	-27.3	-45.2	-20.9	-38.8	-39.8
Turnover	-40.7	-13.1	-21.9	-12.2	-25.6	-12.3	-12.4	-14.6	-41.0	-13.3	-26.4	-22.4	-50.6	-16.0	-36.8	-32.0
Employment	-19.8	-7.6	-11.9	-4.9	-9.0	-1.7	-5.2	-4.1	-17.0	-5.5	-12.6	-8.6	-18.2	-6.9	-12.0	-11.0
Prices	-13.9	-2.9	-7.1	7.0	-4.9	2.1	-2.7	9.8	-8.9	-2.0	-7.0	5.6	-8.5	0.2	-8.8	6.2
Investments	-34.3	-23.2	-19.6	-16.2	-25.0	-19.9	-11.1	-18.2	-29.0	-19.1	-19.6	-20.1	-34.5	-28.1	-26.5	-31.3
Orders	-36.4	-12.8	-20.1	-13.3	-22.2	-16.5	-14.2	-17.0	-33.4	-13.2	-26.8	-21.6	-48.8	-13.1	-36.3	-30.0

Annex B – Difference between the realised and the expected balance

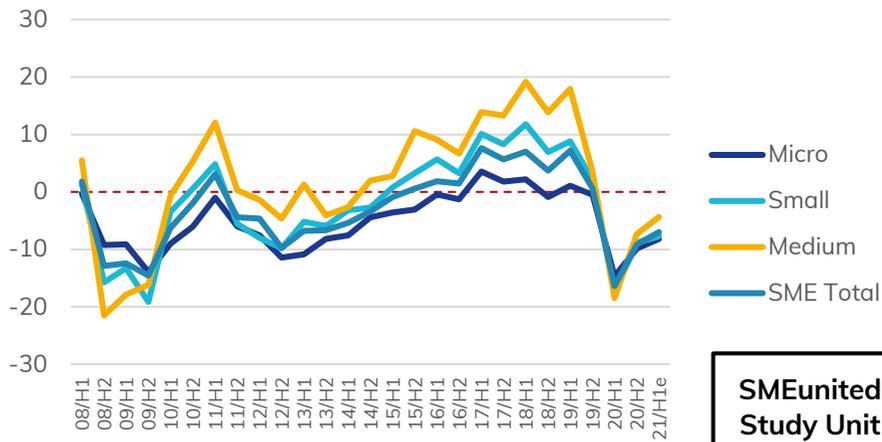
	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	20H1-20H1e	20H2-20H2e	20H1-20H1e	20H2-20H2e	20H1-20H1e	20H2-20H2e	20H1-20H1e	20H2-20H2e
Overall	-26.3	0.6	-28.0	-2.6	-27.0	5.9	-18.0	8.6
Turnover	-42.5	-8.9	-44.8	-11.1	-41.4	-4.8	-47.3	-2.5
Employment	-16.9	-4.4	-15.4	-4.8	-19.1	-1.6	-19.0	0.6
Prices	-25.6	-10.5	-25.0	-6.0	-27.6	-3.3	-31.1	-4.2
Investments	-26.6	4.1	-25.9	4.2	-28.4	11.1	-30.2	7.9
Orders	-37.4	-10.6	-36.3	-12.4	-38.1	-4.5	-44.9	-1.6

	Manufacturing		Construction		Business Services		Personal Services	
	20H1-20H1e	20H2-20H2e	20H1-20H1e	20H2-20H2e	20H1-20H1e	20H2-20H2e	20H1-20H1e	20H2-20H2e
Overall	-25.5	5.7	-17.6	12.9	6.1	-10.2	10.2	-18.0
Turnover	-42.9	-8.9	-38.8	-0.1	-8.6	-13.1	-6.1	-20.8
Employment	-20.9	-4.3	-14.0	-3.6	-4.5	-7.0	-4.8	-5.1
Prices	-29.2	-4.2	-30.8	-4.9	-5.0	-5.0	-3.5	-9.0
Investments	-28.9	3.6	-27.1	8.8	1.7	-0.4	0.8	1.6
Orders	-35.6	-7.4	-27.0	2.3	-7.0	-13.5	-7.5	-23.5

Results – European Craft and SME Barometer – Spring 2021

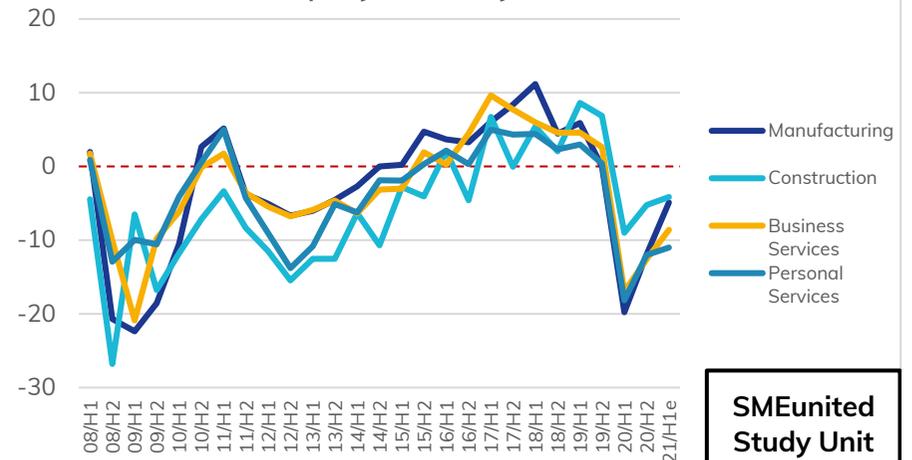


Employment by class size



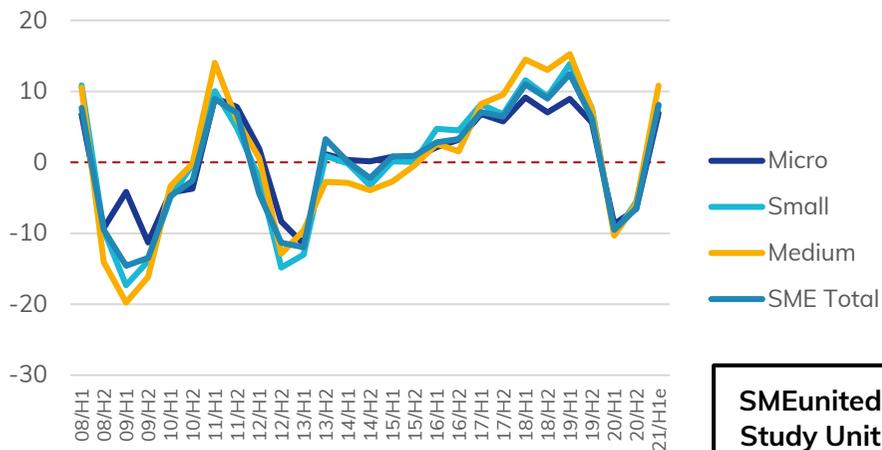
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Employment by sector



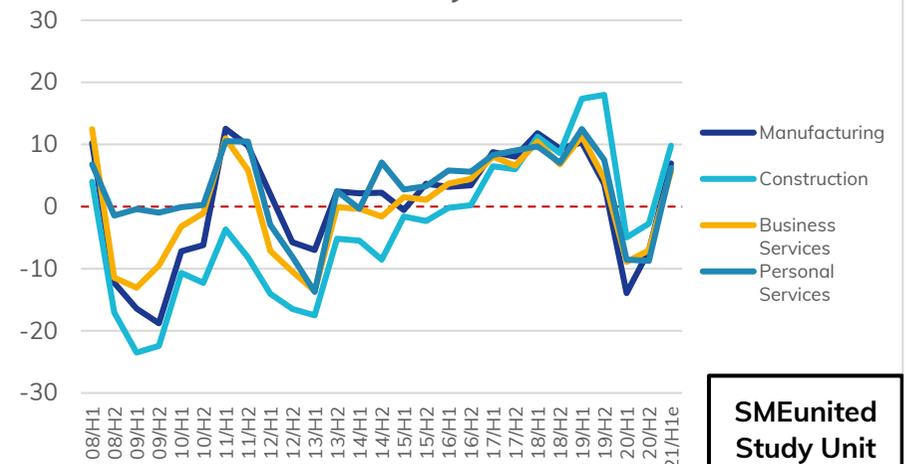
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Prices by class size



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Prices by sector



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