

# AUTUMN 2023

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



## Executive Summary

The SME Business Climate Index shows a rebound for autumn 2023 increasing to 73.8 (+2.5). This improvement may be linked to the ability of small and medium-sized enterprises (SMEs) to diversify supply chains, ensuring access to energy and enhance energy efficiency. Furthermore, the positive development of services, like hospitality, contributed to a more positive outlook compared to the overall economy.

However, despite this positive trend for the European Union in general, there are significant differences among Member States. In particular, SMEs in countries with above-average inflation rates suffer from reduced competitiveness and higher wage increases and experience a downward trend, with figures below the baseline of 70, signaling a recession.

In Spring 2023, SME performance did not differ significantly from the previous semester. Nonetheless, the performance significantly exceeded the expectations indicated at the beginning of the semester, especially for the overall situation, investments and orders. This could be due partly to a specific impact from investments in energy efficiency and renewable energy to save costs.

For the second half of 2023, fears about economic and political challenges and the uncertain business environment still dominate the expectations of SMEs. Although the expectations for the current semester show a negative trend, it is less pronounced than for the last period.

Interestingly, contrary to the negative expectations for orders and turnover, the expectation for employment remains stable or slightly increases. This indicates that labour shortage still persists. Therefore, SMEs expect and hope to fill the gap, particularly in the services sectors.

As regards price developments, the manufacturing sector seems to benefit from price decreases for commodities and the stabilisation of energy prices, while the labour intensive services sector struggles with the impact of wage increases, creating additional upward pressure on prices with the risk of wage-price spirals.

Finally, contrary to other sectors, since ECB started increasing interest rates, the demand in the construction sector has significantly declined, impacting employment and investment in this sector. Furthermore, the fact that there is still a negative dynamic regarding orders and expectations for orders, points to the continuation of the observed downward trend in the near future.

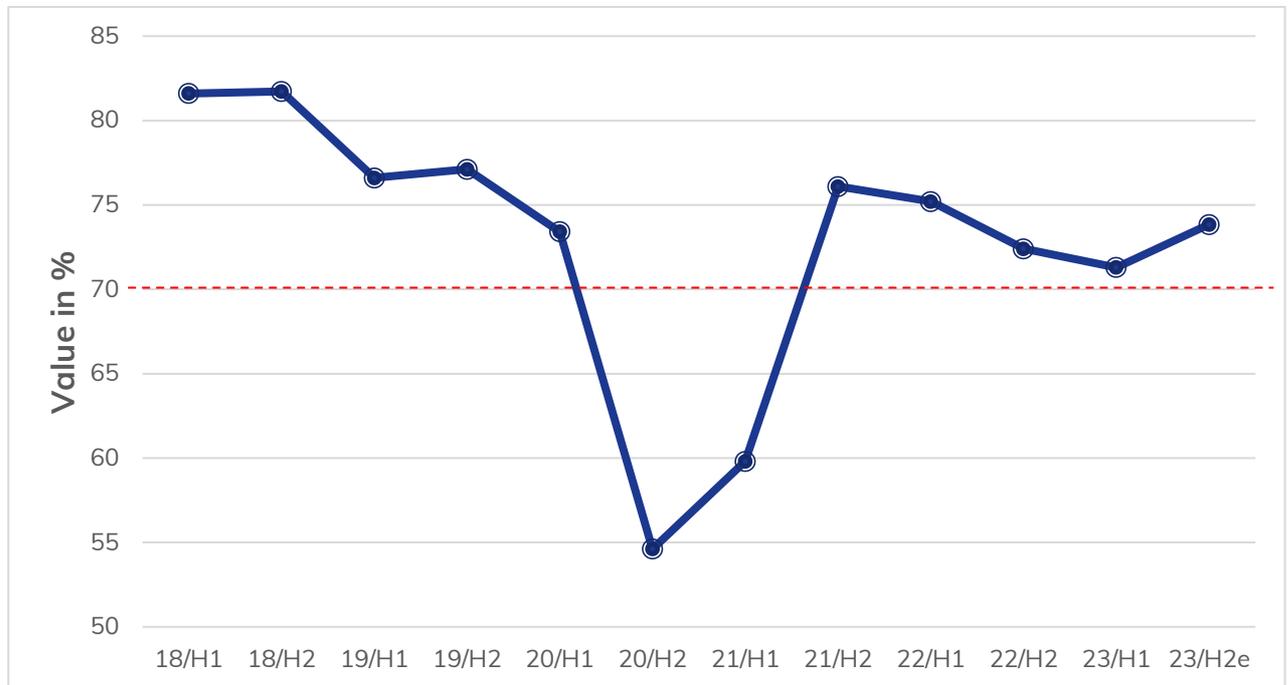
# SME Business Climate Index slightly up to 73.8

## After descending trend, SME Business Climate Index starts to rebound

After the global recession caused by the Covid-19 pandemic, Europe's economic conditions improved, leading to an increase in SME confidence levels. However, the invasion of Ukraine by Russia in February 2022 put a halt to the recovery due to uncertainty of energy supplies, continued disruption of supply chains and trade restrictions through sanctions, all of them resulting in price increases.

The trend for autumn 2023 turns back to slightly more optimism and the overall SME Business Climate Index increases by 2.5 to 73.8 and stays clearly above the baseline of 70, which means SMEs do not expect a recession.

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



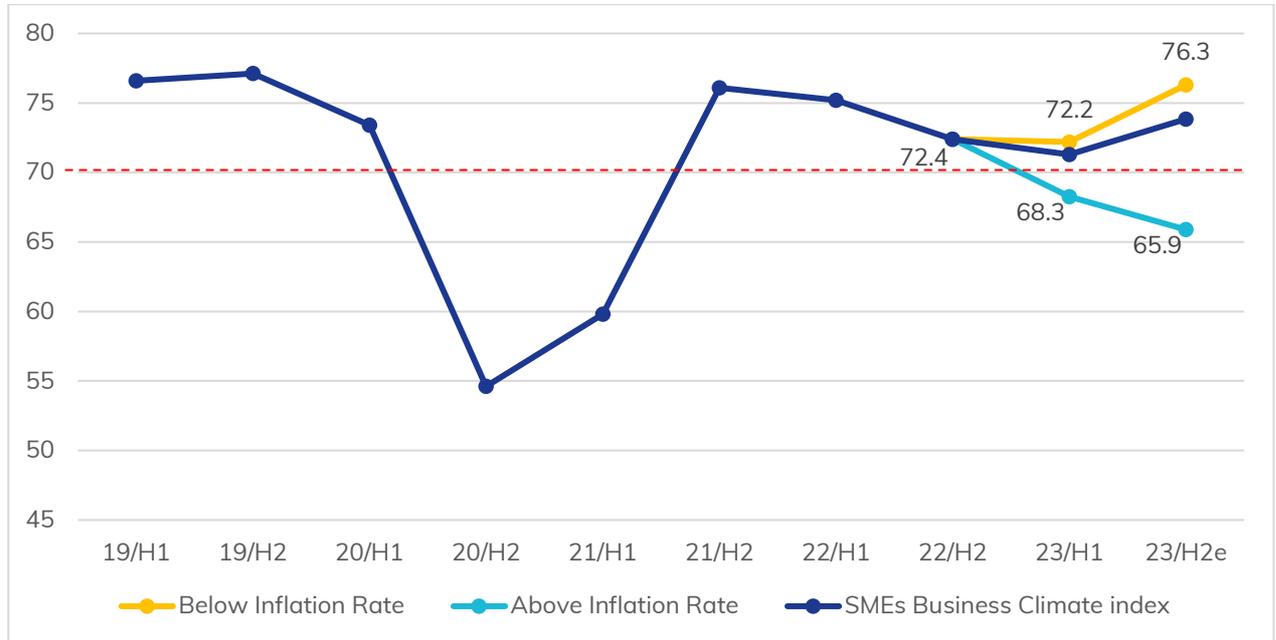
This positive trend may be a result of reduced dependences by diversification of suppliers, ensured access to energy and improved energy efficiency. Additionally, SMEs have proved their ability to adapt business strategies.

In spite of this positive trend for the European Union in general, there are significant differences between Member States. The confidence of SMEs in countries with above average inflation

<sup>1</sup> The SME Business Climate Index assigns a value to the European SMEs' confidence in economic development for the near future. The index is calculated as the average of companies that have reported positive or stable business situations and expect a positive or stable development for the next period. Therefore, the index can range from 100 (all positive or neutral) to 0 (all negative).

rates is much lower and continues the downward trend observed since the beginning of the war as Chart 2 shows.

**Chart 2 – SMEUnited BCI: Comparison below inflation rates vs above inflation rates<sup>2</sup>**



Inflation rates in Europe vary significantly among Member States and are influenced by various factors, amongst others economic structures, external influences beyond the control of Member States, and different measures taken to mitigate inflation.

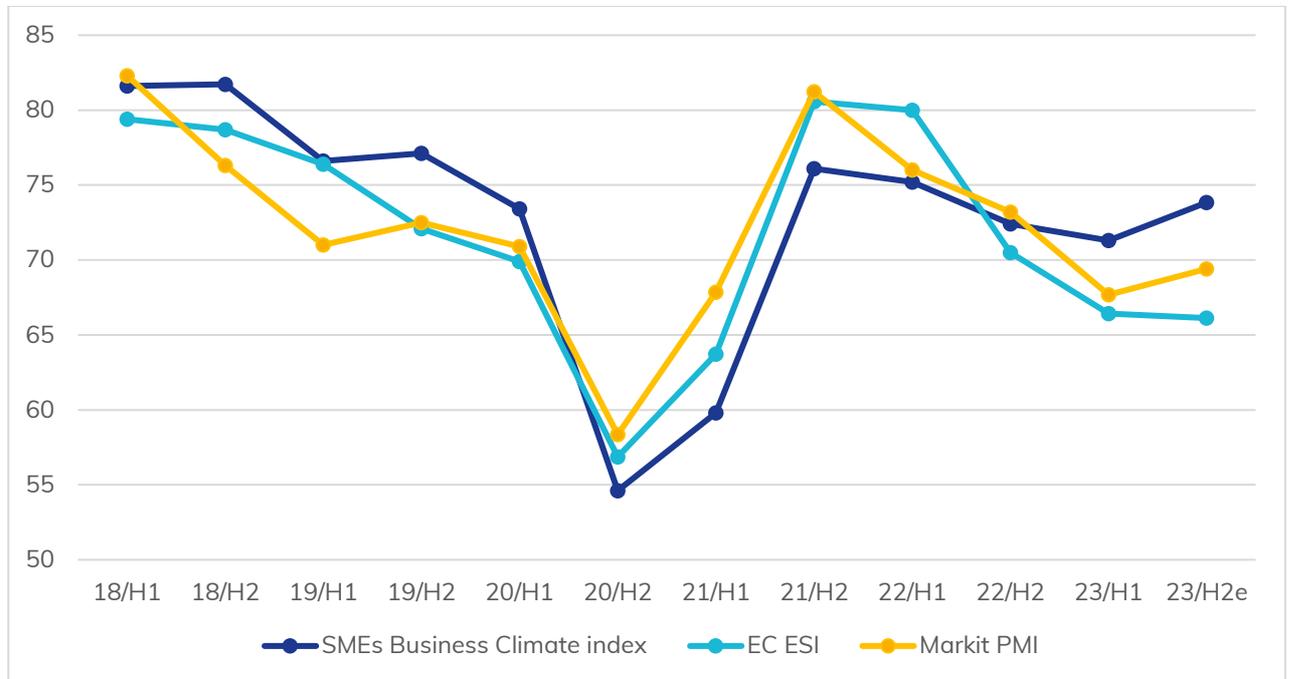
Meanwhile, countries with below-average inflation rates demonstrate their ability or effectiveness in controlling inflation better than countries with above-average inflation rates. This is confirmed by the uptrend in SMEs' confidence levels illustrated in the Chart 2. The majority of these countries are part of the Eurozone and benefit from a robust monetary policy, while non-Eurozone Members States may be additionally impacted by depreciations of their currencies.

Furthermore, inflation rates are interconnected with wages. High inflation rates often turn into higher wages and vice versa. Wage increases can create second round effects and push inflation further. Finally, high inflation has an impact on competitiveness and reduces business confidence. For the countries with above-average inflation, the 65.9 index is clearly below the baseline and will likely result in negative growth rates of SMEs.

<sup>2</sup> Countries with inflation rates below the average consist of Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Spain, Sweden. In addition, countries with inflation rates above the average include Austria, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia.

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<sup>3</sup>**



The SMEs Business Climate Index (BCI) shows that SMEs were most affected during the COVID-19 lockdown period. Meanwhile, the second crisis, marked by high energy prices and inflation, seems to have impacted SMEs less in comparison to larger companies. These trends are reflected in Chart 3, where the BCI shows better results for SMEs (BCI) than for large corporates (PMI) and the figures for the overall economy (EC ESI) during the current crisis starting with the war in February 2022. Compared to the SME index, which stays above the baseline, the other indexes show a sharp decline and have been below the 70 line.

This situation indicates that larger companies were struggling due to the energy price hikes compared to SMEs, which benefited from a more robust internal demand, especially in the services sectors, such as tourism, events and other personal services. Even though the results for the BCI and the PMI are better for the second semester of 2022 on average, the month by month data for the PMI shows a slight downward trend. However, this does not explain the more negative results for the EC ESI, which used to be more in between the PMI and the SME BCI.

<sup>3</sup> The EC’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 Markit Composite PMI tracks different variables of large firms in manufacturing and services, and has been equally rescaled to 70 as a neutral level from the average of the last three months.

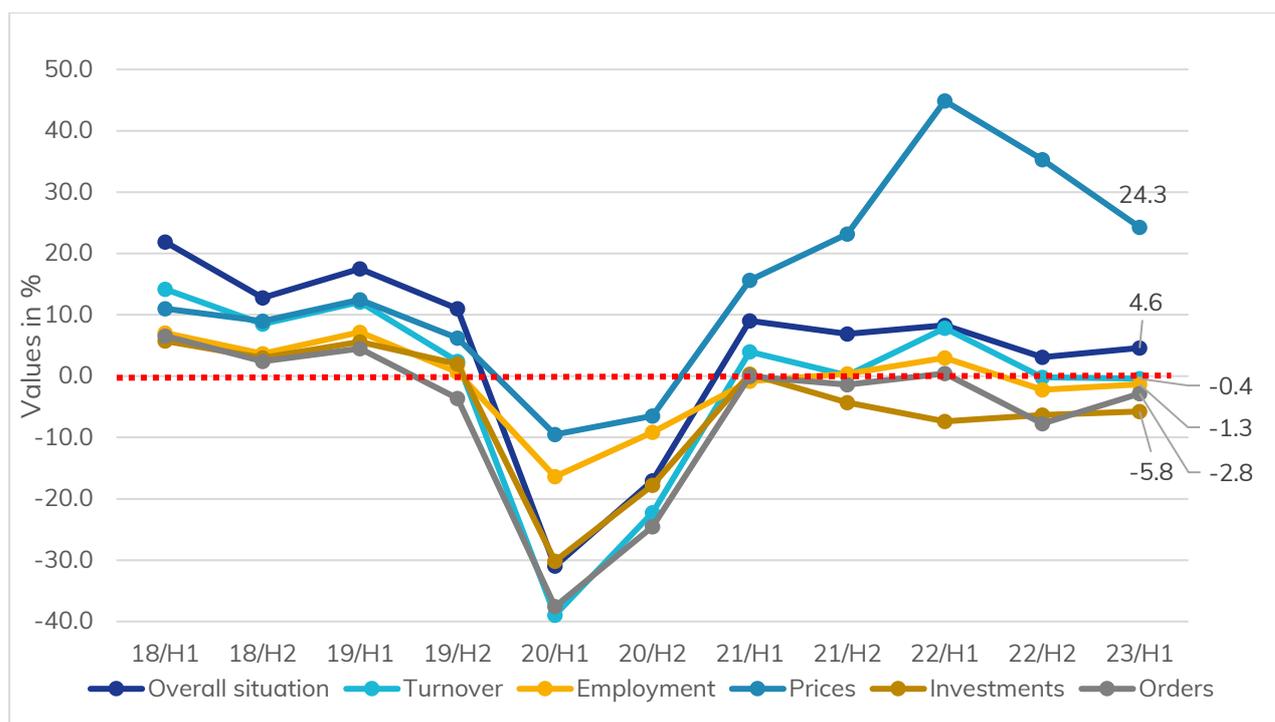
## The EU SME Barometer: waiting for recovery

The EU Craft and SME Barometer is built on the results of surveys conducted by SMEUnited member organisations. It shows the difference between positive and negative replies from SMEs of different sizes and sectors for six economic indicators: the overall situation, turnover, employment, prices, investments and orders.<sup>4</sup>

### Performance of SMEs slightly increased during the first semester of 2023

The overall performance of SMEs during the first semester of 2023 does not differ much from the previous semester. Policy responses to energy shortage and inflation led to an improvement of the overall situation, for which the balance increased from 3.1% to 4.6%. Nevertheless, this improvement had very limited impact on the SME specific indicators, which show a slight decrease for turnover and very limited increases for employment, investment and orders. Negative figures continue for all these indicators. Only the result for prices has a clear downward trend and points to a reduction of the inflation dynamic. However, a high number of SMEs still report an ability to increase sales prices, resulting in a balance of 24.3 and indicating further upward pressure for inflation.

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



<sup>4</sup> More about the methodology can be found at page 13.

## Results for first half of 2023 significantly above expectation

Even if the results for the first half of 2023 remain stable compared to the semester before, they have been significantly better than expected. Table 1 presents the comparison between SMEs' expectations for the first semester of 2023 and the actual results.

The comparison shows that the fears SMEs had for the first semester of 2023, especially as regards energy supply and costs, did not materialise. This leads to an increase of the figures for the overall situation from -20.0 to +4.6.

**Table 1 – Expectations and actual results for the first semester of 2023**

	Expectations 23/H1e	Results 23/H1	$\Delta$ (R-E) 23/H1
<b>Overall</b>	-20,0	4,6	24,6
<b>Turnover</b>	-6,1	-0,4	5,6
<b>Employment</b>	-3,6	-1,3	2,2
<b>Prices</b>	34,0	24,3	-9,8
<b>Investments</b>	-14,3	-5,8	8,5
<b>Orders</b>	-14,9	-2,8	12,1

The difference for more company related indicators are less pronounced, due to the fact that the expectations were already less negative. The result for turnover is 5.6% above expectations as well as those for employment (+ 2.2). Even better results can be observed for investments (+8.5) and orders (+12.1). This may be the result of more efforts made by SMEs to invest in energy efficiency and renewable energy to save costs. Complaints about long waiting periods in these sectors confirm these effects.

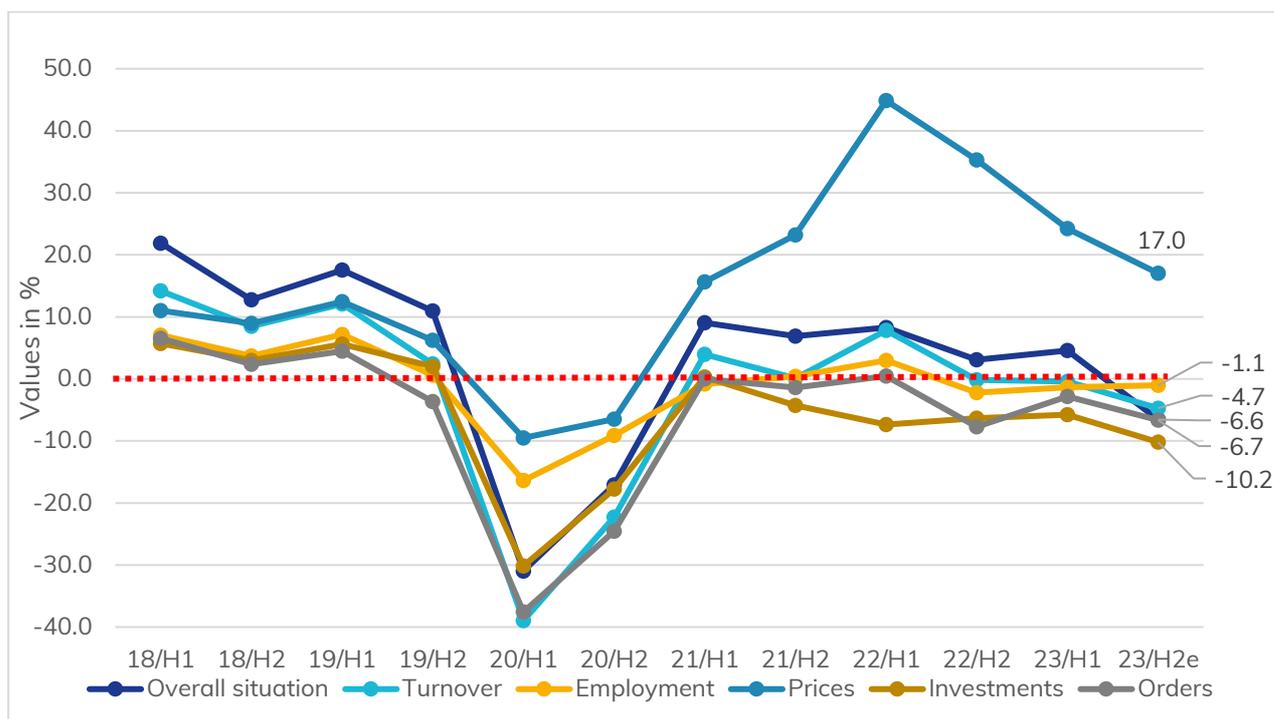
Different is the situation as regards prices, where the results are clearly below expectations (-9.8). This shows that SMEs have been less able to increase their sales prices than expected, which may also be caused by the overall decrease of inflation rates.

## Expectations for Autumn 2023: high degree of uncertainty

Although SMEs' performance showed a slight improvement in the first half of 2023, the second half brings a sense of uncertainty. In Chart 5, all lines on the chart slope downward, except employment, which remains stable.

Due to economic challenges and an uncertain business environment, almost all figures present decreasing values, while the overall performance is expected to decline to a negative value, reaching -6.6%.

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



Interestingly, when orders decrease, and turnover follows suit, employment should follow the same trend. However, Chart 5 displays relative stability or even a slight increase in employment. We can relate this to the fact that SMEs have had an employment gap and therefore still anticipate hiring employees at a rate similar to that of the previous period.

Furthermore, SMEs are adapting their business strategies in response to energy and inflation mitigation measures implemented during the first semester of 2023. It is still questionable whether the effects will be short-term or long-term, adding to the already existing overall uncertainty caused by geopolitical circumstances.

Although the expectations for the second half of 2023 show a negative trend, this decline is less pronounced than 6 months before, as Table 2 shows.

**Table 2 – Expectations both for the first semester and second semester of 2023**

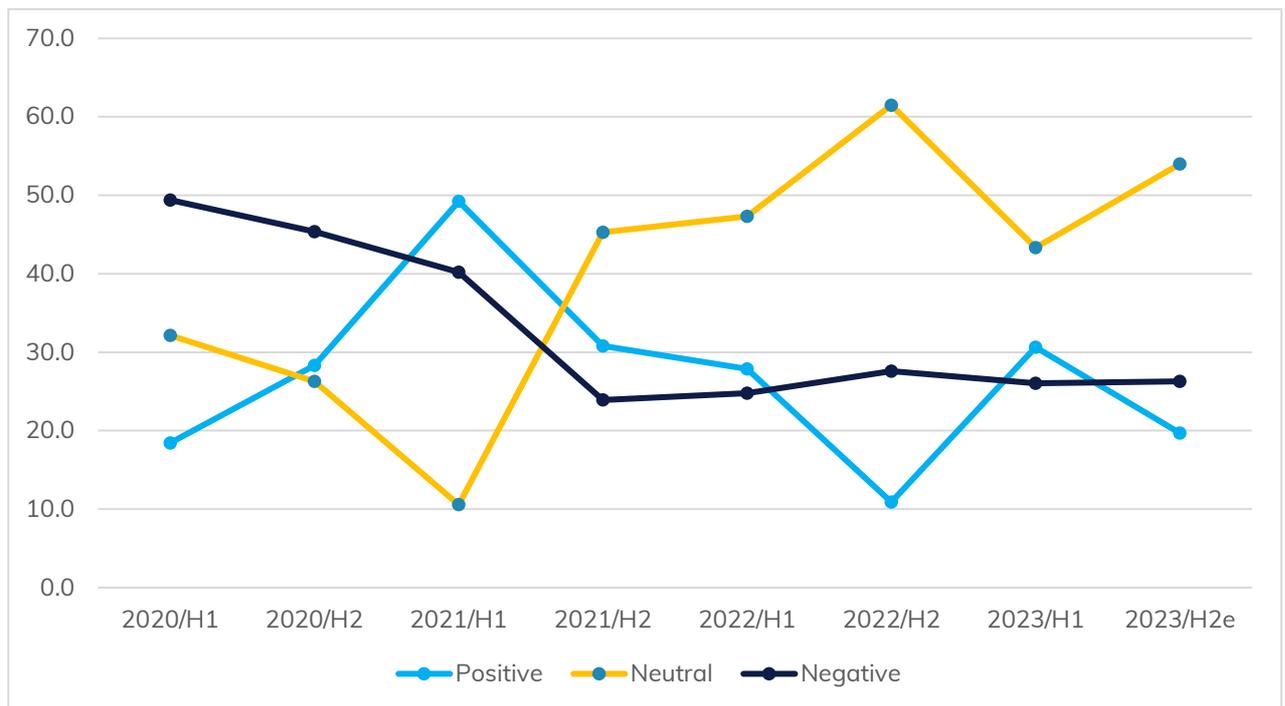
	Expectations 23/H1e	Expectations 23/H2e	$\Delta$ (E/H2e-E/H1e) 23
<b>Overall</b>	-20,0	-6,6	13,4
<b>Turnover</b>	-6,1	-4,7	1,4
<b>Employment</b>	-3,6	-1,1	2,5
<b>Prices</b>	34,0	17,0	-17,0
<b>Investments</b>	-14,3	-10,2	4,1
<b>Orders</b>	-14,9	-6,7	8,2

The difference between the expectations for the second semester of 2023 and the expectations for the beginning of 2023 shows a positive development for the overall situation, with figures increasing from -20 to -6.6, an improvement of +13.4. Positive trends are observed for orders, turnover and employment. This indicates that uncertainty and fears for the current semester are less pronounced than for the last period.

### Growing numbers of neutral responses highlight elevated uncertainty

Survey responses provide valuable insights into the expectations of SMEs for Autumn 2023, offering a deeper understanding of their economic perspective.

**Chart 6 – Overview of survey replies to SMEUnited SME Barometer**



The first semester of 2023, shows a narrow gap between positive and neutral answers, with a slight decrease in negative responses. This display SMEs’ performance, which has slightly improved in the first half of this year (see Chart 4).

Nonetheless, the expectations for Autumn 2023 are marked by an increase in the number of neutral responses, which comes at the expense of positive responses. This proves that, instead of taking a negative stance, SMEs rather indicate a wait and see stance and remain neutral when confronted with uncertainty in the business environment and as regards upcoming economic challenges.

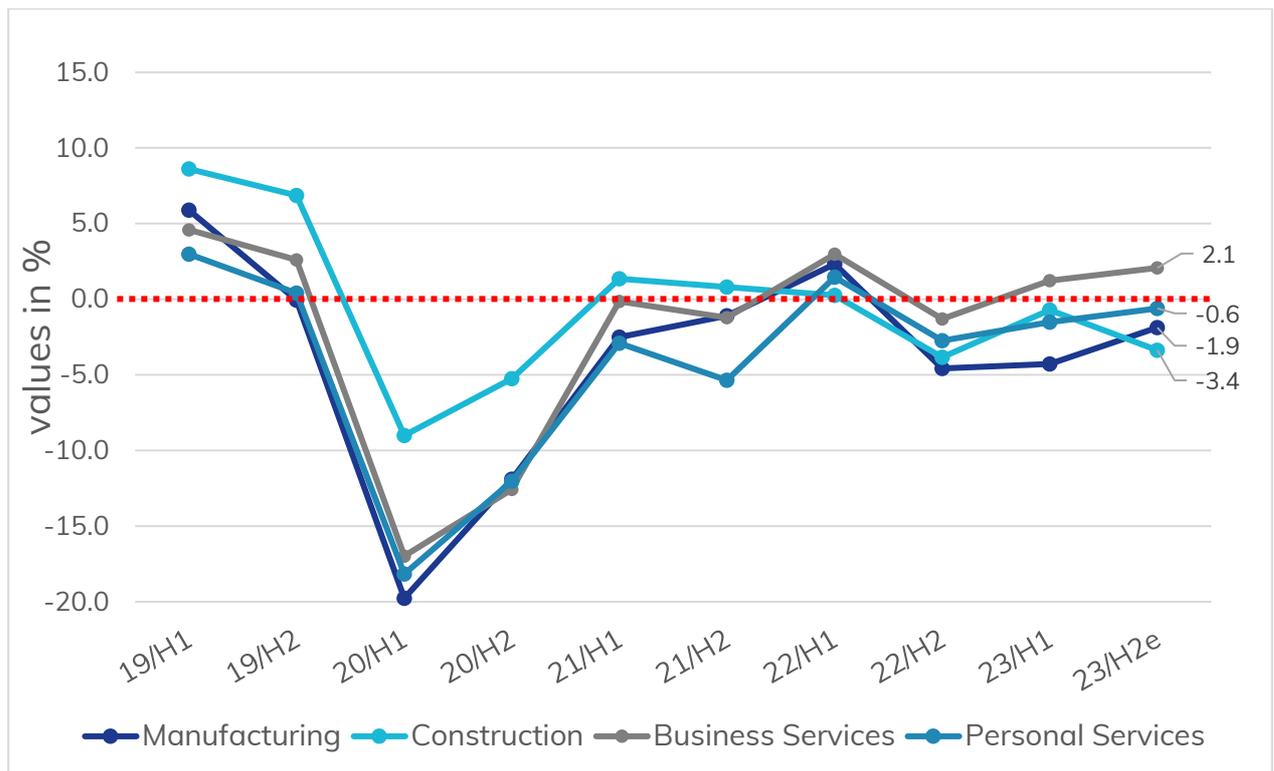
Therefore, Chart 6 proves that the negative figures for the expectations in Chart 5 do not result from increased pessimism, but rather from the impact of more neutral and less positive responses .

## Sectors differently impacted by the latest developments

### SMEs offer employment opportunities, but not in all sectors

Chart 5 displays a downward trend for all expectations, except for employment, which is showing slight improvement. When we focus on employment in specific sectors, Chart 7 illustrates that the increase is related to the manufacturing and the services sectors, where SMEs are trying to fill employment gaps due to existing labour shortages.

**Chart 7 – Employment by sector**



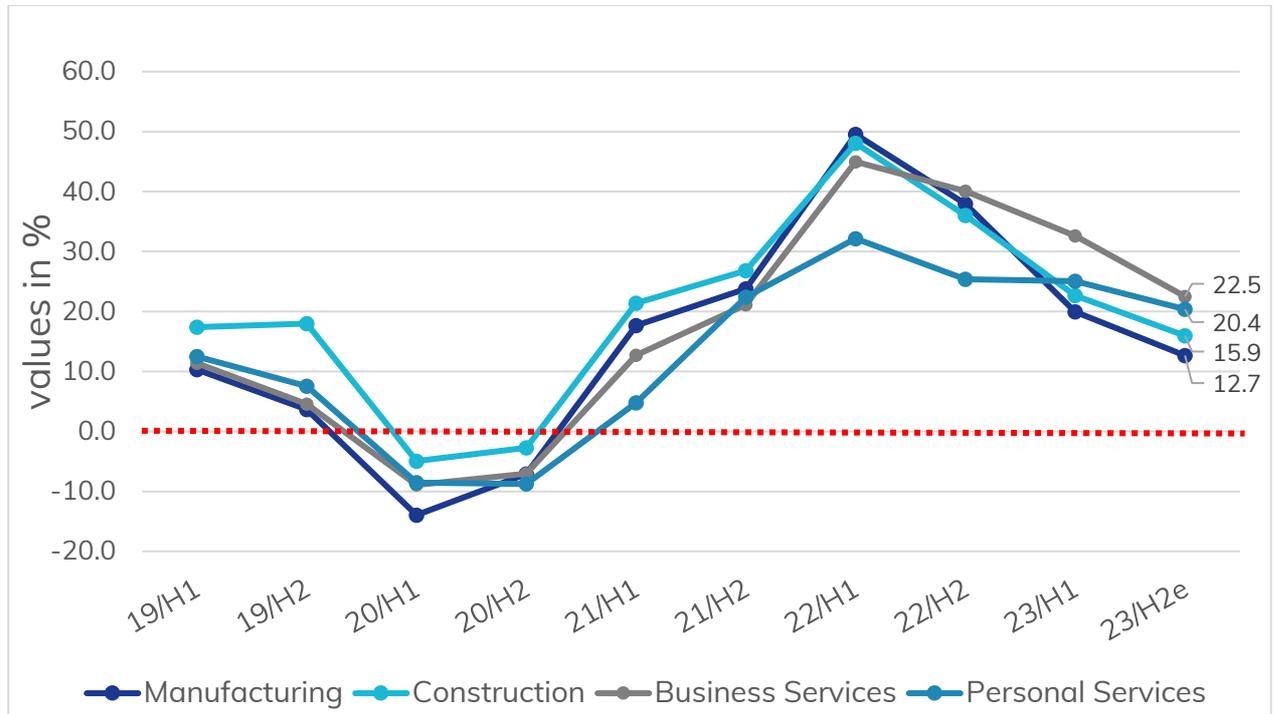
The situation is different in the construction sector, where a negative trend for employment can be observed. This may relate to an overall more pronounced downward development of the sector.

### Price pressure remains high with slight differences between sectors

The expectations as regards the need or ability to increase prices shows an overall negative trend as shown in Chart 5. However, Chart 8 (next page) shows interesting differences between sectors. The manufacturing and construction sectors, which are highly dependent of energy and materials, seem to benefit from relaxations in commodity prices leading to less pronounced price increases in these sectors.

On the other hand, the services sector is labour-intensive and is predominantly affected by wage costs. Significant wage increases as compensation for high inflation rates are leading to additional price pressures and the risk of wage-price spirals in these sectors further nurture inflation.

**Chart 8 – Prices by sector**



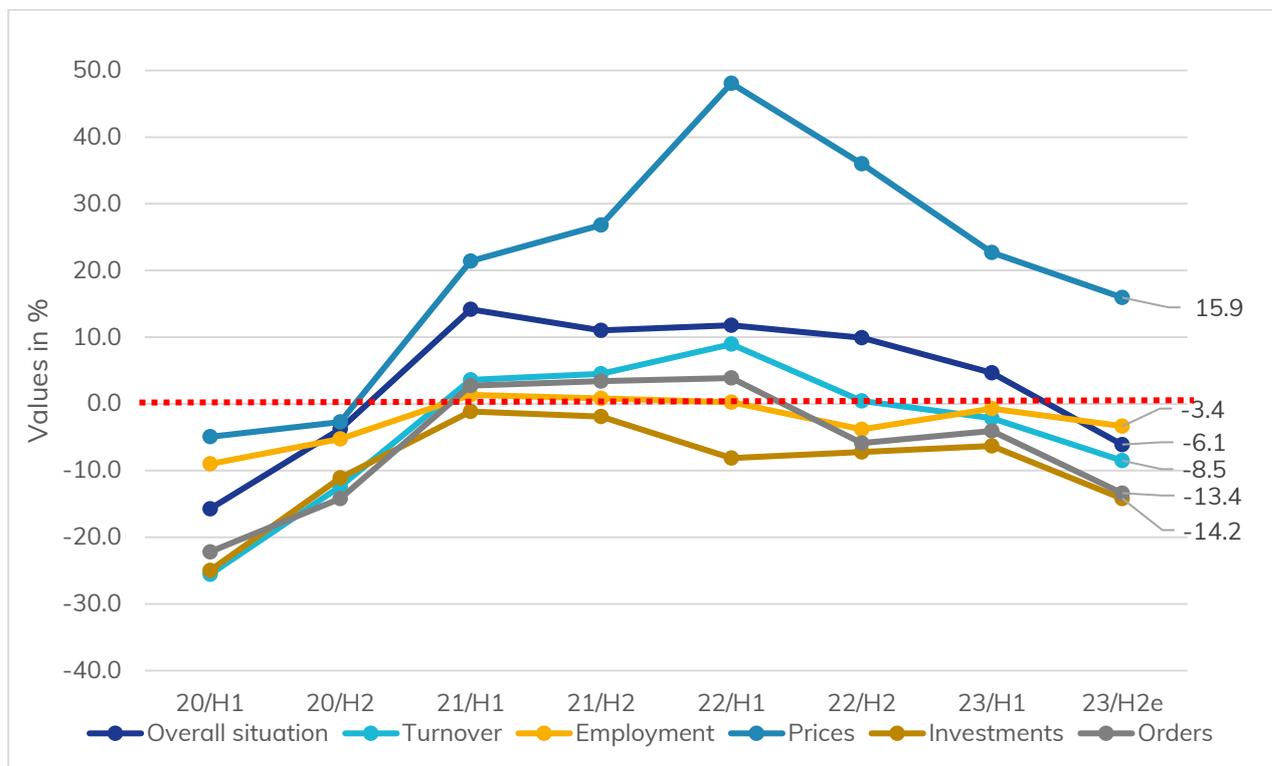
### Specific downward risks for the construction sector

As indicated in the chapter on employment differences by sector, specific downward risks in the construction sector may exist. SME construction companies are mainly active in construction and renovation of private houses. These activities have specifically benefited from high demand during the covid crisis, where many households invested in renovation and improvements in their living environment. This demand was also supported by low costs for mortgages.

The increase in interest rates to bring down high inflation now results in a strong increase of financing costs for investments in housing and a reduced demand as Chart 9 shows.

Since the start of increasing interest rates by the European Central Bank, the demand in the construction sector has declined significantly and impacted also employment and investments in the sector.

Chart 9 – Construction by the six business indicators



Furthermore, the fact that there is still a negative dynamic as regards orders and expectations for orders, points to a continuation of the observed downward trend in the near future.

## Conclusions and recommendations

For the first time after the start of the war in Ukraine, the SME Business Climate Index slightly improves. However, the performance of SMEs in countries with inflation rates above average is further derogating and will very likely lead to a recession. The overall positive dynamic can be seen as a result of an improved situation as regards energy supply, more diversified supply chains and a reduced inflation dynamic.

In the first semester of 2023, SMEs' performance has been quite stable with some improvements for employment, investments and orders. Especially increases in investment and orders give evidence that SMEs invested in energy saving measures, in an attempt to reduce the impact of the rise in energy prices on their costs. While the manufacturing sector benefits from price decreases for commodities and a stabilisation of energy prices, the labour intensive personal services sector is confronted with significant wage increases creating additional upward pressure on prices.

In addition, the results for the first semester of 2023 are significantly above the expectations, showing that the concerns towards a possible degradation of the economic context did not evolve as expected.

Expectations for autumn 2023 are impacted by a high degree of uncertainty. On the other hand, more positive figures for employment show that SMEs are still confronted with labour shortage and continue to hire staff.

Contrary to other sectors, construction SMEs suffer from a strong decrease in demand due to high interest rates leading to a significant increase in costs for investments in private housing.

In order to reduce uncertainty, stabilise economic development and prepare for recovery, SMEs ask for measures which further stabilise commodity markets, reduce inflation, increase labour supply and ensure access to finance.

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

- ensure access to energy and commodities at affordable prices;
- increase efforts to reduce inflation dynamic;
- provide an enabling environment for the transition, which ensures predictability for investors, encourages innovation and overall competitiveness;
- avoid new regulatory burdens hindering an effective transition and creating additional costs for SMEs;
- use the Recovery and Resiliency Facility to support reforms and crowd in investments for the green and digital transition;
- increase 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;
- reform economic governance to allow flexibility for necessary investments 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 April and August 2023, which gives quite a recent picture of the development and expectations of SME owners across Europe.

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

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

This Barometer presents the results (experiences) for the first semester of 2023 as well as the expectations for the second half of 2023.

SMEUnited publishes its **EU Craft and SME Barometer twice a year**, ahead of the European Summit in spring and autumn. The publication also includes the **European SME Business Climate Index** (see first pages), which is calculated using the average of the current situation and the expectations for the next period, as a result of the sum of positive and neutral answers as regards the overall situation for the business.

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

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

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	22H2	23H1e	23H1	23H2e	22H2	23H1e	23H1	23H2e	22H2	23H1e	23H1	23H2e	22H2	23H1e	23H1	23H2e
Overall	3,1	-20,0	4,6	-6,6	-0,2	-18,7	1,3	-6,6	6,2	-21,1	7,2	-6,2	8,5	-21,3	9,7	-5,9
Turnover	-0,2	-6,1	-0,4	-4,7	-4,4	-6,4	-4,1	-4,7	2,9	-8,3	3,3	-3,6	7,6	-4,7	5,6	-1,3
Employment	-2,2	-3,6	-1,3	-1,1	-3,7	-3,5	-1,5	-1,1	-2,6	-4,7	-0,5	-0,4	2,1	-2,5	0,2	-3,7
Prices	35,3	34,0	24,3	17,0	34,3	34,1	24,7	17,0	35,8	33,7	25,9	17,1	35,2	33,0	21,8	11,6
Investments	-6,4	-14,3	-5,8	-10,2	-8,8	-16,3	-7,5	-10,2	-5,1	-17,2	-4,1	-11,4	-2,4	-12,9	-2,9	-9,9
Orders	-7,7	-14,9	-2,8	-6,7	-10,2	-14,7	-4,3	-6,7	-4,6	-15,7	-0,1	-5,2	-8,6	-13,5	-1,9	-7,1

	Manufacturing				Construction				Business Services				Personal Services			
	22H2	23H1e	23H1	23H2e	22H2	23H1e	23H1	23H2e	22H2	23H1e	23H1	23H2e	22H2	23H1e	23H1	23H2e
Overall	-7,0	-25,6	-0,5	-12,3	9,9	-16,7	4,6	-6,1	3,5	-17,1	5,9	-6,0	-2,8	-24,6	3,1	-0,3
Turnover	-0,6	-10,0	-1,5	-6,1	0,4	-7,8	-2,1	-8,5	1,5	-5,3	-0,7	-5,3	-7,7	-8,9	-0,5	0,6
Employment	-4,6	-4,1	-4,3	-1,9	-3,8	-5,8	-0,7	-3,4	-1,3	-2,1	1,2	2,1	-2,7	-3,6	-1,5	-0,6
Prices	37,9	31,5	19,9	12,7	36,0	35,3	22,7	15,9	40,1	39,4	32,6	22,5	25,4	27,8	25,1	20,4
Investments	-10,4	-20,4	-7,6	-11,2	-7,2	-16,7	-6,3	-14,2	-2,0	-12,2	-3,9	-8,2	-8,2	-17,2	-4,0	-5,6
Orders	-9,8	-16,6	-3,8	-5,6	-5,9	-16,9	-4,1	-13,4	-3,5	-13,2	-4,3	-7,3	-12,6	-15,4	0,3	0,8

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

	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	22H2-23H1e	23H1-23H2e	22H2-23H1e	23H1-23H2e	22H2-23H1e	23H1-23H2e	22H2-23H1e	23H1-23H2e
Overall	19,7	24,6	15,7	20,1	22,7	28,3	24,8	31,0
Turnover	1,5	5,6	0,7	2,4	3,2	11,6	-0,7	10,3
Employment	-3,4	2,2	-3,9	2,0	-3,6	4,3	-0,9	2,7
Prices	-4,6	-9,8	-6,7	-9,5	-4,5	-7,8	-4,0	-11,2
Investments	8,0	8,5	10,0	8,7	9,9	13,1	1,4	10,1
Orders	1,1	12,1	-0,2	10,4	3,2	15,7	-6,3	11,6

	Manufacturing		Construction		Business Services		Personal Services	
	22H2-23H1e	23H1-23H2e	22H2-23H1e	23H1-23H2e	22H2-23H1e	23H1-23H2e	22H2-23H1e	23H1-23H2e
Overall	15,9	25,1	28,5	21,3	19,8	23,0	10,2	27,7
Turnover	2,6	8,5	5,6	5,7	6,7	4,6	-4,6	8,4
Employment	-4,5	-0,2	-1,1	5,1	-2,6	3,3	-4,5	2,1
Prices	-2,0	-11,6	-3,6	-12,7	-3,7	-6,8	-6,7	-2,8
Investments	5,2	12,8	12,8	10,4	13,3	8,3	3,4	13,2
Orders	-1,5	12,9	10,7	12,8	5,6	8,8	-8,1	15,7

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

