



Annual Report on European SMEs 2014 / 2015

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EXECUTIVE SUMMARY

This report provides an overview of the past and forecasted performance of SMEs from 2008 to 2016, and reviews in greater detail the contribution of SMEs to employment creation.

SMEs accounted for 71.4% of the increase in employment in 2014 in the non-financial business sector, which includes all sectors of the economy except for 'financial services', 'government services', 'education', 'health', 'arts and culture', 'agriculture, forestry and fishing'. SMEs are a highly diverse population of enterprises, and are present in every nook and cranny of the economy, with activities ranging from the production of artisan food to the production of high tech space exploration equipment, from retail services to the provision of highly specialised professional services, from focusing primarily on serving domestic customers to focusing mainly on the export markets.

In short, SMEs are ubiquitous, and in 2014 accounted for 99.8% of all enterprises in the non-financial business sector in the EU28. For every km² of land surface the EU has an average of 5 SMEs. Moreover, in 2014 SMEs employed almost 90 million people - 67% of total employment, and generated 58% of the sector's value added.

Almost all SMEs (93%) are micro SMEs employing less than 10 people. About three quarters of SMEs are active in the five key sectors: 'wholesale and retail trade', 'manufacturing', 'construction', 'business services' and 'accommodation and food services'.

The tentative green shoots of growth of 2013 gained in strength in 2014. Namely, in 2014 EU28 SME value added grew by 3.3% and employment by 1.2%, while in 2013 value added grew by 1.6% and employment declined by 0.5%.

However, the positive 2014 experience was not shared by all Member States - SMEs in Cyprus, Sweden, Croatia, Greece, Italy and the Czech Republic showed a decline in value added, which in the case of Cyprus and Italy was also accompanied by a reduction in employment.

Among the five key sectors, the 'business services' sector was at the EU28 level the star performer across all three SME performance indicators (i.e. regarding increase in employment, value added and number of SMEs). Value added in this sector grew by more than 5% in 2014.

The other four key sectors and the 'other' sector also recorded good value added growth ranging from 2.7% to 3.4%, but the employment growth performance of these sectors was much weaker, especially in 'construction' where employment continued to fall in 2014 (despite an increase of 3.4% in value added) and 'manufacturing' where employment grew by only 0.8%.

The latest developments in EU28 SME performance reflect improving macro-economic and business conditions.

Not all SMEs are out of the woods, though. In particular, SMEs in construction, and, to a somewhat lesser extent, in manufacturing, were hit hard by the economic and financial crisis. Employment in these two sectors in 2014 was still respectively 17% and 11% below 2008 levels, whereas value added in construction remained 18% below its 2008 level and in manufacturing has almost crawled

back to where it stood in 2008. In contrast, SMEs in the ‘accommodation and food services’ and the ‘business services’ domains benefitted from robust growth in these sectors.

A more detailed analysis at the Member States level shows that SMEs in only 7 countries (AT, BE, DE, MT, LU, SE and UK) have fully recovered in terms of the number of SMEs, value added and employment. In contrast, SMEs in 9 countries still have to achieve a recovery in any of the 3 performance indicators (EL, ES, HR, HU, IE, IT, PL, PT and RO). In the remaining Member States, SMEs have only achieved a recovery in one or two of the performance indicators.

Drilling further down into the sectorial performance of SMEs across the different Member States, one observes that a full recovery in terms of number of SMEs has been achieved in the majority of Member States in the ‘services sectors’, while the reverse is true in the ‘manufacturing’ and ‘construction’ sectors. The recovery in terms of value added is more uneven: ‘manufacturing’, ‘construction’, and ‘wholesale and retail trade’ (the largest sectors) are still lagging behind in most Member States, while ‘accommodation’, and ‘business services’ have performed positively throughout almost all the EU28. The performance is somewhat more negative for employment, where only a few countries have achieved more than full recovery in at least four sectors (Austria, Germany, France, Malta, Luxembourg, United Kingdom and Sweden).

The positive developments for EU28 SMEs are expected to gain momentum in 2015 and 2016, with annual growth of, respectively, 3.3% and 3.7% expected for EU28 SME value added, 0.8% and 0.9% for SME employment, and 0.5% and 0.7% for the number of SME enterprises.

Medium-sized SMEs are forecast to do slightly better than small and micro enterprises in both 2015 and 2016 and across all three indicators.

SME growth is also expected to be more balanced in terms of sectorial growth, with all the major SME sectors predicted to take part in the overall upswing of SME activity. However, ‘construction’ and ‘manufacturing’ are forecast to continue to lag behind the other sectors.

Member States are projected to continue to exhibit a great deal of diversity in terms of SME performance in 2015 and 2016.

The SME sector contributed disproportionately to both the decline in employment from 2008 to 2013 and the subsequent employment recovery, as SMEs accounted for 67% of total EU28 employment in the non-financial business sector in both 2008 and 2013. Within the group of SMEs, micro SMEs accounted for a disproportionately large share of the decline in SME employment from 2008 to 2013.

To gain a deeper understanding of the SME employment creation dynamics, this year’s SME Annual Report explores the SMEs employment creation performance.

The EU28 shows a great deal of heterogeneity in SME employment creation across Member States and sectors of economic activity.

- Only eight Member States (AT, BE, DE, FR, LU, MT, SE and UK) show SME employment growth from 2008 to 2014, with double-digit growth in four of them (BE, DE, FR and MT). Among the 20 Member States with net SME employment reduction over the period 2008 to 2014, eight Member States (Lithuania, Italy, Croatia, Latvia, Cyprus, Portugal, Spain and Greece) post double-digit net employment losses.

- The strongest SME employment growth was recorded mainly in sectors which are small. For example, the best performers in terms of SME employment creation were 'electricity, gas steam and air conditioning supply, water supply', 'administrative and support service activities', and 'sewerage, waste management and remediation'. These sectors show employment growth in excess of 10% over 2008-2013, but they account for less than 10% of total SME employment. Employment in some of the larger sectors such as 'food and beverage service', 'legal and accounting', and 'real estate', grew by 10%, 9%, and 8% respectively over the period 2008-2013. These three sectors account for 8%, 3% and 3% respectively of total SME employment.

It is estimated that one out of five EU SMEs experienced a net growth in terms of employment during the crisis years. This represents a relatively large sub-segment of approximately 4 million of the total 22,3 million SMEs in the EU.

What are the characteristics of these SMEs which appear to be spearheading a recovery in SME job creation?

Firstly, the job-creating SMEs were primarily those providing services. They were far more prominently represented in this group than, for instance, manufacturing firms. However, **there is no reason or indication to assume that manufacturing firms could not replicate the employment expansion observed in the services firms.**

Secondly, net employment creation was particularly strong from 2008 to 2014 in knowledge-intensive services. This was the case across all three SME size classes (i.e. micro, small, and medium-sized firms). In contrast, all of the four types of technology-intensive goods producing sectors (ranging from low technology to high technology) showed net job losses between 2008 and 2013. During this period the less technology-intensive SMEs lost a higher proportion of their jobs than the more technology-intensive SMEs. In 2014, in terms of employment, the goods-producing sectors stagnated.

Thirdly, young SMEs of no more than nine years of age were the main net employment creators in recent years. However, a number of older firms created new jobs as well, or **kept their staff, which contributed to stabilising the labour market as a whole.**

Finally, general economic conditions, especially the macro-economic environment, have a major influence on the SME's employment creation performance. This means that many of the job-creating firms were based in Member States with a more favourable macro-economic environment.

Thus, while the analysis found that particularly young firms active in knowledge-intensive service sectors and based in favourable macro-economic conditions were the main net job creators, one should not neglect or underestimate the importance of all the other SMEs for the growth and jobs in the EU. As this report focuses on the analysis of recent SMEs trends, it cannot provide detailed recommendations as regards the future course of EU SME policy, but may stimulate the discussion not only on how the success of the best performing group of SMEs can be sustained, but also on how can it be replicated across all sectors, SME age classes and Member States.