

»» SME business sentiment: retail in freefall, manufacturing steady

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Author: Dr Philipp Scheuermeyer, phone +49 (0)69 7431-4017, philipp.scheuermeyer@kfw.de

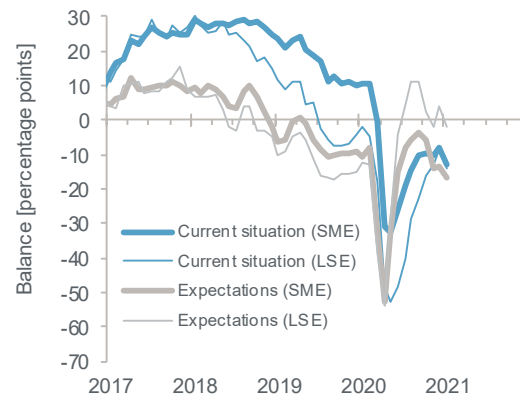
Press contact: Christine Volk, phone +49 (0)69 7431-3867, christine.volk@kfw.de

- SME business confidence fell sharply in January, but much less than in the first lockdown.
- Situation assessments and expectations are both down.
- The extended lockdown has impacted almost all sectors. Only manufacturing has decoupled from the pandemic.
- Economic output is set to contract significantly in the first quarter. The extent of the recovery in the spring will mainly depend on vaccine progress.

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME sentiment has fallen

The tighter lockdown that has been in effect since 16 December 2020, which included the closure of many retail outlets, has depressed sentiment in the SME sector. Business confidence fell by 4.2 points to -14.8 balance points. Situation assessments and business expectations both deteriorated.

- After the December business survey missed capturing most of the tighter lockdown, a significant deterioration in business situation assessments in January was foreseeable. The drop by 5.3 points to -13.0 balance points was substantial but much more moderate than during the first lockdown.
- Business expectations also fell significantly (-3.1 points to -16.6 balance points). Uncertainty about the end of the lockdown and disappointment in the slow pace of the vaccine rollout in Germany and the EU both likely contributed to growing pessimism. The spread of highly

contagious virus mutations is also creating uncertainty.

Large enterprises, too, are disillusioned

Business confidence among large enterprises has developed more positively than in the SME sector since autumn. However, in January large firms saw an even sharper drop by -5.5 points to now just -7.7 balance points. Almost all sectors contributed to the drop in confidence. Business sentiment among large retailers in particular has deteriorated substantially because of the lockdown, and service providers also saw their mood drop sharply. Construction was the only sector that experienced a slight improvement. Sentiment among large manufacturers stagnated for the first time since the rebound began in May 2020.

Retail in freefall

Business sentiment among small and medium-sized retailers is nosediving. After all, most shops have had to remain closed already since mid-December, and given the rather slow decline in infection rates it is unclear when they can

KfW Research KfW-ifo SME Barometer: January 2021

reopen. This is compounded by the end of the temporary VAT reduction since the start of the year, which is likely to weigh on turnovers irrespective of the sales channel. However, despite plummeting by 27.5 points, business sentiment among SME retailers is still well above the low of April last year, at now 26.7 balance points (-42.3 balance points). Expectations in particular were still much more pessimistic in April (-50.5 vs. -27.1), and situation assessments also did not drop as steeply this time (-33.3 vs. -26.5). The decline in sentiment among wholesalers is also much more moderate than in the spring (-4.4 points to -13.1 balance points). This time, manufacturing-oriented firms offset part of the losses of retail-oriented wholesalers.

Services and construction are also weaker

Sentiment among small and medium-sized service providers fell by 3.4 points to -23.6 balance points. The segment already experienced the sharpest drop in confidence in autumn. Comprising hospitality, entertainment, culture, sport and personal services, it does, after all, include the sectors that have already been directly impacted by the lockdown since the beginning of November. The sector that remains largely unaffected by all restrictions is construction, where sentiment was still well above average before the crisis, dropping into negative territory only briefly during the first lockdown. Business sentiment in construction fell sharply in January nonetheless (-5.8 points to 1.7 balance points).

Manufacturing has decoupled from the pandemic activity

Only the manufacturing sector reported slightly improved

sentiment in January (+0.8 to -4.1 points). Manufacturers generally remain on a growth track, with order books well filled and the threat of the lockdown being extended to the sector remaining low in Germany, but also in most trading partners. On the other hand, the rapid pace of recovery since the autumn quarter is slowing, and bottlenecks such as a shortage of semiconductors are hampering production in the important automotive industry.

A bad start to the year

On balance, the KfW-ifo SME Barometer shows a bad start to the year and growing pessimism among the majority of small and medium-sized enterprises. The extended and tightened lockdown restrictions are significantly weighing on economic performance in the affected enterprises. In other sectors, turnovers are under pressure from the expiry of the temporary VAT reduction. Compared with last spring, however, sentiment in the sectors affected by the restrictions is no longer dropping quite as low. Adaptation measures such as the introduction of contactless sales channels are likely to pay off. Most of all, however, the manufacturing sector appears to have decoupled from the pandemic activity, so that gross domestic product will contract much less in the current quarter than last spring. On the other hand, the spread of virus mutations has created additional uncertainty about the further course of the pandemic and the choice of containment measures. Nevertheless, a recovery can be expected in the spring. The extent of the rebound, however, will depend heavily on progress in vaccine rollout and the success of the current lockdown.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jan/20	Aug/20	Sep/20	Okt/20	Nov/20	Dez/20	Jan/21			
Business climate											
Manufacturing	SME	-11.7	-15.6	-10.8	-8.4	-8.0	-4.9	-4.1	0.8	7.6	5.9
	LSE	-17.2	-14.6	-10.3	-6.6	-2.8	0.9	0.6	-0.3	17.8	10.1
Construction	SME	19.7	8.2	13.1	8.9	8.2	7.5	1.7	-5.8	-18.0	-4.3
	LSE	13.8	-10.0	-5.7	-8.5	-7.4	-7.2	-5.5	1.7	-19.3	1.4
Retail trade	SME	10.1	8.0	7.7	9.2	-1.5	0.8	-26.7	-27.5	-36.8	-17.4
	LSE	-0.5	8.6	-2.4	-4.4	-7.5	-6.9	-23.5	-16.6	-23.0	-13.2
Wholesale trade	SME	-5.7	-11.2	-9.8	-9.4	-10.8	-8.7	-13.1	-4.4	-7.4	-0.7
	LSE	-4.4	-14.4	-3.8	-2.3	-7.5	-3.3	-3.6	-0.3	0.8	2.0
Services	SME	2.7	-12.1	-11.2	-13.2	-21.7	-20.2	-23.6	-3.4	-26.3	-9.7
	LSE	2.1	-2.3	-2.2	-6.5	-13.2	-7.5	-13.0	-5.5	-15.1	-7.6
Germany	SME	-0.4	-10.1	-6.9	-7.5	-12.0	-10.6	-14.8	-4.2	-14.4	-4.3
	LSE	-7.3	-9.0	-5.7	-6.6	-7.0	-2.2	-7.7	-5.5	-0.4	1.5
Current situation	SME	10.8	-14.6	-10.3	-9.4	-10.2	-7.7	-13.0	-5.3	-23.8	1.1
	LSE	-2.1	-28.8	-22.9	-16.3	-12.7	-8.6	-13.8	-5.2	-11.7	11.0
Expectations	SME	-10.7	-5.8	-3.7	-5.8	-13.8	-13.5	-16.6	-3.1	-5.9	-9.5
	LSE	-12.3	10.9	11.4	2.6	-1.7	3.8	-2.2	-6.0	10.1	-8.3
Employment expectations	SME	2.1	-5.2	-2.1	-2.5	-4.2	-4.0	-3.9	0.1	-6.0	-0.8
	LSE	-4.0	-12.6	-10.6	-8.5	-8.6	-9.1	-10.0	-0.9	-6.0	1.3
Sales price expectations	SME	7.3	-3.3	-2.7	-2.8	-2.2	-0.5	0.2	0.7	-7.1	2.1
	LSE	1.8	-5.0	-3.0	-1.4	-3.2	2.5	1.6	-0.9	-0.2	3.4
Export expectations of manufacturing	SME	-10.4	-14.3	-9.2	-11.7	-15.3	-11.5	-8.6	2.9	1.8	-0.1
	LSE	-8.9	4.9	8.7	5.6	-4.3	-2.3	0.1	2.4	9.0	-8.6

Source: KfW Research, ifo Institute

Explanations and abbreviations:

*Seasonally and mean adjusted (long-term mean since January 2005 = 0)

S(mall and) M(edium-sized) E(nterprises).

L(arge-)Scale E(nterprises).

Change in percentage points m(onth)-o(ver)-m(onth).

Change in percentage points y(ear)-o(ver)-y(ear).

Change in percentage points 3 m(onths period)-o(ver)-3 m(onths period).

Revisions relative to previous publications may occur due to seasonal and mean adjustments as well as rounding. The KfW-ifo SME Barometer was fundamentally revised for the reporting month of April 2018 (new aggregation process, inclusion of services, start of time series now 2005 instead of 1991, consideration of export expectations, discontinuation of regional indicators for western and eastern Germany). Publications prior to and from April 2018 are therefore comparable to a limited extent only.

Construction and interpretation of the KfW-ifo SME Barometer

The KfW-ifo SME Barometer indicator family is based on a scale-of-enterprise evaluation of the ifo economic surveys which are used to calculate, among other things, the well-known ifo Business Climate Index. Each month about 9,000 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 7,500 SMEs. Enterprises are generally classed as small to medium-sized if they employ a workforce of not more than 500 and record an annual turnover not exceeding EUR 50 million. For a more accurate analysis, however, these quantitative distinctions have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million), the building and the construction industry (up to 200 employees) and services (maximum annual turnover of EUR 25 million). All enterprises that exceed at least one of these thresholds are classed as large-scale enterprises. The KfW-ifo SME Barometer reports the balance of current business assessments (percentage of positive answers less percentage of negative answers), the balance of business expectations for the next six months, ascertained in a similar way, and the inferred mean average value for the business climate. Moreover, the enterprises' employment and domestic sales price expectations and – exclusively for manufacturing – export expectations are also captured as balance figures for the next three months. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average since January 2005. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.