

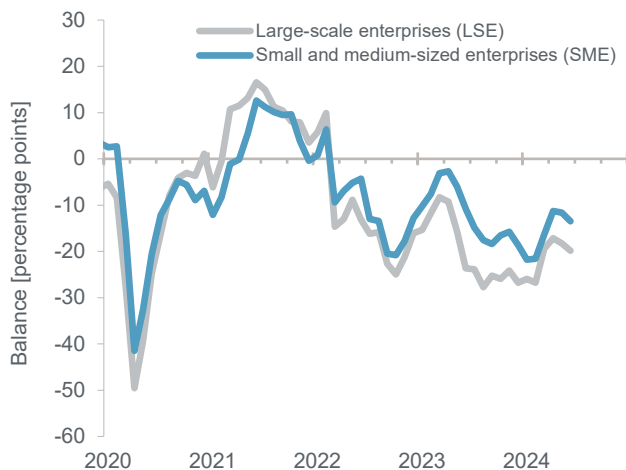
»»» SME business sentiment drops for the second consecutive month

5 July 2024

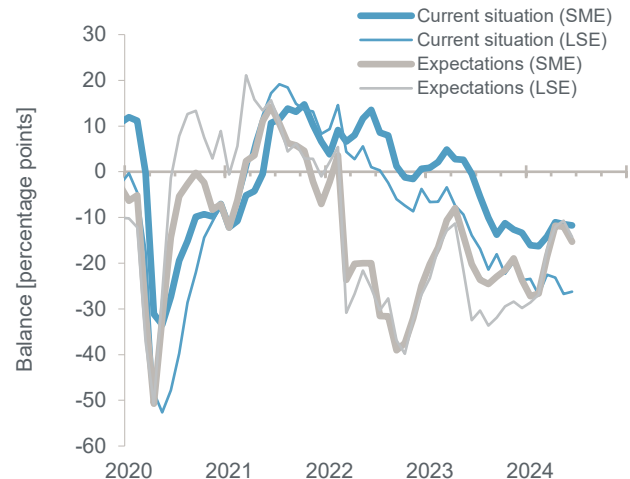
Author: Dr Klaus Borger, phone +49 69 7431-2455, klaus.borger@kfw.de
Press contact: Christine Volk, +49 69 7431-3867, christine.volk@kfw.de

- After revision: SME business sentiment fell for the second month in a row
- Expectations and situation assessments have dropped to a three-month low
- Large enterprises are also more pessimistic again
- Economic risks remain high

KfW-ifo Business Climate Index



KfW-ifo sentiment components



Source: KfW Research, ifo Institute

Business sentiment has fallen for the second month

New clouds are gathering on the economic horizon. Sentiment among German SMEs fell slightly by 1.9 points to -13.5 balance points in June. After the result in May was revised from a minor increase to a slight dip, this is now the second straight decline. Both sentiment components dropped, and business expectations in particular:

- Specifically, expectations for the next six months dropped by 3.3 points to -15.3 balance points, a three-month low. Nevertheless, the second quarter saw a sharp rise of 11.1 points on average compared with the preceding quarter. That gives hope that the economic recovery will continue, although this is anything but guaranteed.
- Situation assessments fell by a moderate 0.3 points on May and now stand at -11.8 balance points, which also marks a three-month low. At the same time, however, they were 4.1 points higher in the second quarter than in the first, which points to persistent economic growth in the spring.

Bucking the trend: Service providers and construction sector are more upbeat

Sentiment among Germany's SMEs is currently divided. It has fallen in the manufacturing sector (-4.7 points to -21.0 balance points), wholesale (-5.1 points to -29.5 balance points) and retail, where the decline was particularly steep and rather unexpected given that the conditions for an economic rebound are still intact (-8.9 points to -14.8 balance points). By contrast, business sentiment among service providers rose by 1.6 points in June and, at -4.5 balance points, is now on the highest level in a year. Sentiment continued to brighten in the construction sector as well. After an increase of 1.1 points, sentiment there now sits at -20.2 balance points, which is likewise the highest level since June of last year.

Confidence among large enterprises fell again

Sentiment in June followed a disappointing trend among large enterprises, too. Their business confidence fell by 1.6 points to -19.9 balance points, which was again noticeably lower than that of SMEs. What is striking, however, is the divergence between situation assessments and expectations. The latter

fell by 3.6 points to -14.3 balance points, so that large enterprises remain slightly less pessimistic about the next six months than SMEs. By comparison, situation assessments improved moderately while remaining well below the level of SMEs (+0.5 points to -26.2 balance points). As was the case in SMEs, the sector comparison showed a mixed trend. While sentiment was clearly better than in May in the services sector (+4.9 points to -18.8 balance points) and slightly better in manufacturing (+0.8 points to -16.7 balance points), it deteriorated more or less significantly in the other economic sectors. Whereas a rather minor drop was observable in the construction sector (-1.9 points to -6.7 balance points), there was a decline in retail, which was still moderate considering the relatively high volatility in the sector (-5.5 points to -21.1 balance points), and a veritable collapse in confidence among wholesalers (-12.0 points to -35.6 balance points). The wholesale sector thus shed almost all gains from the previous month and has returned to the bottom of the sentiment table again.

The economic risks remain high

The key message of the KfW-ifo SME Barometer in June is that the hoped-for economic recovery remains very uncertain. The sentiment rebound has stalled, and the expectations component of the business sentiment index declined in both enterprise size classes, presumably because the risks to the business cycle remain high. Among these risks are the increased support for populist parties in Germany and abroad, as shown by the European elections at the beginning of the month. Populism could have a longer-term negative impact on an export-oriented country such as Germany in particular. Furthermore, the current uncertainty could be associated with the unexpectedly called parliamentary elections in France, the outcome of which was still entirely unclear during the survey period. The outcome of the US presidential elections in November will be at least as relevant. This fits in with the fact that this time it was wholesale, the sector situated at the interface between domestic and foreign markets, that recorded the steepest drop.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jun 2023	Jan 2024	Feb 2024	Mar 2024	Apr 2024	May 2024	Jun 2024			
Business climate											
Manufacturing	SME	-17.5	-26.9	-26.6	-22.7	-21.0	-16.3	-21.0	-4.7	-3.5	6.0
	LSE	-20.3	-23.8	-23.5	-19.6	-20.1	-17.5	-16.7	0.8	3.6	4.2
Construction	SME	-16.1	-31.3	-30.5	-28.8	-23.7	-21.3	-20.2	1.1	-4.1	8.5
	LSE	-2.9	-21.2	-16.0	-8.1	-9.0	-4.8	-6.7	-1.9	-3.8	8.3
Retail trade	SME	-11.3	-16.9	-14.8	-9.5	-7.9	-5.9	-14.8	-8.9	-3.5	4.2
	LSE	-18.0	-23.0	-23.8	-11.3	-12.7	-15.6	-21.1	-5.5	-3.1	2.9
Wholesale trade	SME	-23.5	-34.1	-36.6	-28.9	-30.6	-24.4	-29.5	-5.1	-6.0	5.0
	LSE	-33.5	-37.7	-39.7	-39.8	-39.8	-23.6	-35.6	-12.0	-2.1	6.1
Services	SME	-3.1	-14.6	-13.0	-8.4	-4.7	-6.1	-4.5	1.6	-1.4	6.9
	LSE	-26.7	-28.8	-30.3	-24.3	-21.9	-23.7	-18.8	4.9	7.9	6.3
Germany	SME	-10.8	-21.8	-21.6	-16.4	-11.3	-11.6	-13.5	-1.9	-2.7	7.8
	LSE	-23.7	-26.0	-26.8	-19.5	-17.2	-18.3	-19.9	-1.6	3.8	5.6
Current situation	SME	-0.5	-16.1	-16.3	-14.2	-11.1	-11.5	-11.8	-0.3	-11.3	4.1
	LSE	-13.9	-23.4	-26.9	-22.5	-23.1	-26.7	-26.2	0.5	-12.3	-1.1
Expectations	SME	-20.2	-27.2	-26.6	-18.6	-11.8	-12.0	-15.3	-3.3	4.9	11.1
	LSE	-32.5	-28.6	-26.9	-17.1	-12.0	-10.7	-14.3	-3.6	18.2	11.9
Employment expectations	SME	0.2	-4.8	-4.6	-4.0	-3.7	-3.8	-5.0	-1.2	-5.2	0.3
	LSE	-2.4	-9.3	-11.6	-4.4	-6.7	-7.6	-6.4	1.2	-4.0	1.5
Sales price expectations	SME	1.5	4.3	-1.2	-2.5	0.1	0.7	1.5	0.8	0.0	0.6
	LSE	-1.8	1.5	-0.5	0.9	1.9	1.3	-0.7	-2.0	1.1	0.2
Export expectations of manufacturing	SME	-17.5	-18.6	-15.2	-13.2	-15.4	-14.1	-15.6	-1.5	1.9	0.6
	LSE	-10.0	-16.8	-12.1	-4.8	-4.0	0.6	-2.6	-3.2	7.4	9.2

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 timeseries 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 9,500 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 8,000 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 timeseries 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.