

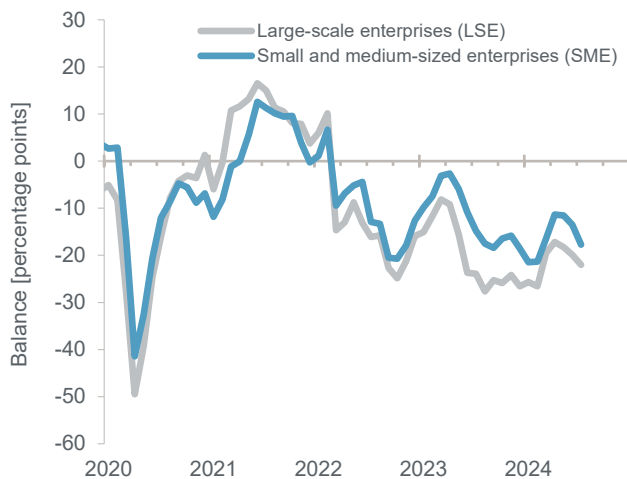
»» SME business sentiment: A summer lull or a reversed upswing?

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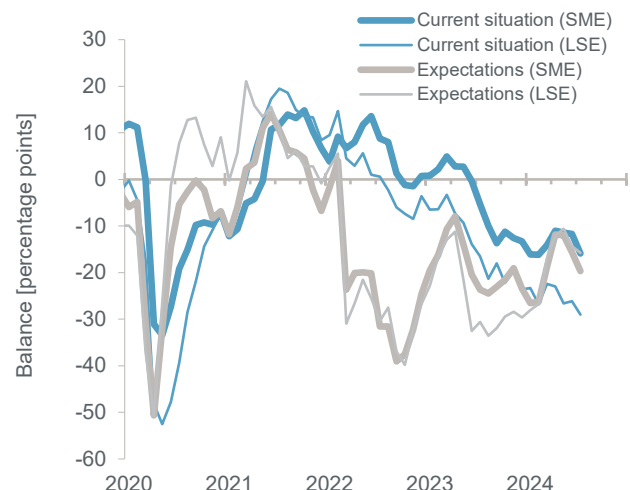
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- SME business sentiment drops for the third consecutive month
- Expectations and situation assessments have both deteriorated sharply
- Mood has turned sour among large enterprises as well
- The summer was an economic disappointment

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

Business sentiment is trending downward again

The sentiment indicator for Germany's SMEs has fallen for the third consecutive month. After a marginal decline in May and a moderate drop in June, SME business sentiment fell by a noticeable 4.2 points to -17.7 balance points in July. Situation assessments and expectations dropped at the same rate this time:

- Specifically, situation assessments plunged by 4.2 points to -15.9 balance points. The catch-up movement from the spring is over and the situation indicator is almost as low as it was at the start of the year.
- Six-month business expectations fell by 4.0 points. Even so, their level of -19.7 balance points is still slightly higher than it was at the start of the year but it remains well below the zero line, which marks the long-term average.

Mood is down in all sectors

The drop in confidence in July affected small and medium-sized enterprises of all sectors. But it was most pronounced in the services sector (-4.6 points), especially as a result of sharply declining business expectations. Sentiment in retail dropped at the second fastest rate (-2.6 points), although it was mainly driven by substantially worse situation assessments, while expectations picked up slightly from their low level. Manufacturing (-0.4 points), wholesale (-0.7 points) and the main construction industry (-1.0 points), on the other hand, reported rather minor declines in business sentiment in July. Nevertheless, in June business sentiment was already significantly lower in these sectors than in retail and the services sector, which continues to be the most optimistic segment by far. Services are currently the only area in which business sentiment and in particular situation assessments remain close to the long-term average.

Business sentiment has dropped in large enterprises too

Confidence among large enterprises deteriorated in July as well. To be sure, with a drop of 2.1 points to -22 balance points, the decline was slightly less pronounced than in the SME sector. However, sentiment among large enterprises has already been well below that of small and medium-sized enterprises over the past months, so that both are rather converging now. Among large enterprises, situation assessments (-2.9 points) and expectations (-1.4 points) both fell in July. Here as well, services have suffered the sharpest drop in sentiment.

Employment expectations fell slightly

Businesses' employment expectations are naturally less volatile than business sentiment or expectations. Accordingly, the upturn in the spring bypassed employment expectations, and the significant downturn in sentiment at the current margin is reflected to a limited extent only (-0.3 points for SMEs; -2.6 points for large enterprises). Nonetheless, a significant decline in employment expectations took place in the course of last year and they have been fluctuating on a slightly negative level for several months now.

Is the economic recovery over already?

'Three is a trend.' According to this rule of thumb from the short-lived business of economic analysis, business sentiment among German enterprises and in particular SMEs is now on a downward trend again. One reason for this could be increased economic risks, including the increased likelihood during the survey period of an election victory by the self-proclaimed 'tariff man' Donald Trump. But the Democrats' nomination of Kamala Harris has now changed this yet again. A closer look at the figures of the KfW-ifo SME Barometer and other economic indicators such as the Purchase Manager's Index, however, shows that the current downturn in sentiment is not purely driven by expectations. Rather, the business situation of the surveyed enterprises, that is, their economic activity, has deteriorated again of late. Besides, the details of the ifo economic survey demonstrate that in the manufacturing sector the reduced business expectations, too, are associated with a sharp drop in their stock of orders. In other words, manufacturers in Germany are obviously grappling with stubbornly weak demand for their products. After the trend reversal in the business surveys and the slight decline in GDP by 0.1% in the second quarter, some question marks now again hang over the economic recovery which we and many other institutions had expected. But among the current indicators there is also a glimmer of hope which continues to point towards a moderate growth trajectory. In particular, the recovery in consumer sentiment has continued until now and, according to the Bank Lending Survey, credit demand from businesses and households picked up again in the past quarter.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jul 2023	Feb 2024	Mar 2024	Apr 2024	May 2024	Jun 2024	Jul 2024			
Business climate											
Manufacturing	SME	-19.0	-26.4	-22.6	-21.0	-16.3	-21.2	-21.6	-0.4	-2.6	3.6
	LSE	-20.5	-23.4	-19.6	-20.2	-17.6	-17.0	-19.3	-2.3	1.2	3.1
Construction	SME	-20.3	-30.4	-28.8	-23.7	-21.3	-20.3	-21.3	-1.0	-1.0	6.7
	LSE	-3.7	-16.0	-8.1	-9.0	-4.9	-6.9	-6.1	0.8	-2.4	5.1
Retail trade	SME	-12.7	-14.9	-9.7	-8.6	-5.0	-16.1	-18.7	-2.6	-6.0	-2.2
	LSE	-15.4	-23.5	-11.3	-12.6	-15.8	-21.7	-22.9	-1.2	-7.5	-4.3
Wholesale trade	SME	-25.1	-36.6	-28.5	-30.4	-24.3	-29.5	-30.2	-0.7	-5.1	3.8
	LSE	-33.6	-39.7	-40.0	-39.5	-23.9	-35.0	-34.0	1.0	-0.4	8.8
Services	SME	-5.2	-12.8	-8.3	-4.6	-6.0	-4.4	-9.0	-4.6	-3.8	2.1
	LSE	-27.8	-30.2	-24.2	-21.8	-23.6	-18.7	-22.3	-3.6	5.5	3.9
Germany	SME	-14.8	-21.3	-16.4	-11.3	-11.5	-13.5	-17.7	-4.2	-2.9	2.1
	LSE	-23.9	-26.6	-19.5	-17.2	-18.3	-19.9	-22.0	-2.1	1.9	1.0
Current situation	SME	-5.3	-16.2	-14.1	-11.0	-11.4	-11.7	-15.9	-4.2	-10.6	0.8
	LSE	-16.5	-26.8	-22.4	-23.0	-26.6	-26.1	-29.0	-2.9	-12.5	-3.2
Expectations	SME	-23.7	-26.3	-18.8	-11.9	-12.0	-15.7	-19.7	-4.0	4.0	3.2
	LSE	-30.6	-26.7	-17.0	-12.0	-10.6	-14.3	-15.7	-1.4	14.9	5.0
Employment expectations	SME	-1.5	-4.4	-3.9	-3.6	-3.7	-5.1	-5.4	-0.3	-3.9	-0.8
	LSE	-5.2	-11.5	-4.4	-6.6	-7.7	-6.6	-9.2	-2.6	-4.0	-0.3
Sales price expectations	SME	0.7	-1.3	-2.4	0.1	0.7	1.6	2.8	1.2	2.1	2.9
	LSE	-1.1	-0.6	0.9	1.9	1.4	-0.6	2.9	3.5	4.0	0.5
Export expectations of manufacturing	SME	-17.6	-15.2	-13.2	-15.4	-14.1	-15.7	-15.4	0.3	2.2	-0.5
	LSE	-11.9	-12.0	-4.8	-4.2	0.2	-3.2	-3.3	-0.1	8.6	4.9

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.