

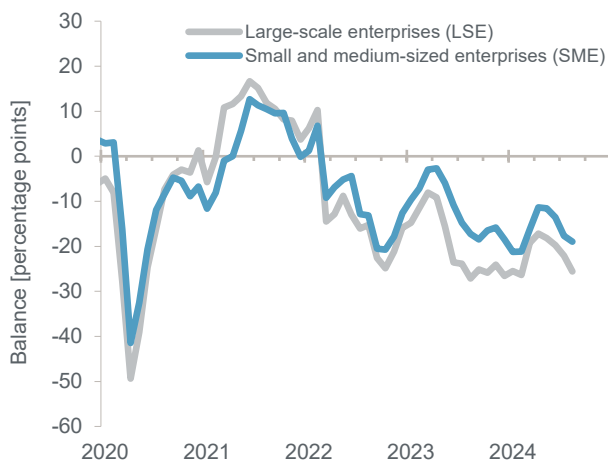
»»» SME sentiment: a bit of light and still a lot of darkness

5 September 2024

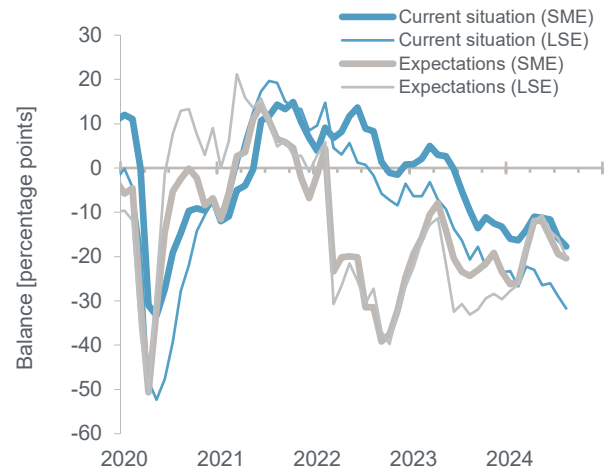
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- SME business sentiment drops for the fourth straight month
- Situation assessments on the lowest level since the COVID-19 crisis of 2020, expectations at a six-month low
- Sentiment has fallen more steeply in large enterprises
- Economy will not return to clear growth until 2025

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

Business sentiment deteriorates for the fourth month

Sentiment among German SMEs continued to deteriorate in August. This time, it dipped by only a moderate 1.3 points to now -19.0 balance points but this is already the fourth consecutive drop after the preliminary high for the year in April. Both sentiment components dipped but situation assessments decreased slightly more:

- Specifically, situation assessments fell by 1.9 points to -17.7 balance points. The last time SMEs rated their business situation more negatively was in July 2020 (-19.1 balance points), when the economy had just come out of the first lockdown to contain the COVID-19 pandemic that had broken out a few months before.
- Business expectations for the next six months were 0.9 points worse in August than in July and are now at -20.4 balance points, a six-month low. Even if the link to economic growth has recently been rather loose, a noticeable recovery seems out of reach for the time being.

Wholesalers and retailers are more upbeat

There are some bright spots, however. Bucking the overall trend in the SME sector, business sentiment has improved among both wholesalers (+1.4 points to -29.0 balance points) and retailers (+4.2 points to -14.2 balance points). The relatively clear improvement in SME retail sentiment could be a first sign that households' real purchasing power, which has recently increased noticeably, is gradually also driving increased spending on the consumption of goods. In contrast, sentiment among wholesalers remained the lowest of all sectors despite improving slightly. Since wholesale is situated at the interface between domestic and foreign markets, the lacklustre foreign trade performance is likely having an impact as well. This – as well as weak capital expenditure – is also weighing on German industry, which relies on exports and specialises in the manufacture of capital goods. Sentiment in the manufacturing sector thus fell to the lowest level since February (-1.7 points to -23.7 balance points), but this is exclusively due to the significantly more pessimistic business

expectations. Business sentiment in the services sector shed 2.3 points in August but remains the highest of all sectors, now sitting at -11.2 balance points among small and medium-sized enterprises. Sentiment in construction, on the other hand, remained nearly unchanged (-0.4 points to -22.1 points), potentially signalling that the trough has been reached in this segment, which is important for residential building.

Confidence among large enterprises fell more sharply

Sentiment among large enterprises also fell – and more sharply than among SMEs. Their business climate dropped by 3.5 points to -25.6 balance points. Unlike SMEs, however, their business expectations clouded over much more, dropping by -4.2 points to -20.1 balance points, than their assessments of the current business situation, which fell by 2.8 points to now -31.8 balance points. In a sector comparison, on the other hand, the picture is similar. Sentiment deteriorated among manufacturers and service providers but improved among retailers and wholesalers. Noteworthy exceptions, however, were large construction enterprises, which focus on commercial construction and civil engineering. Their sentiment improved by a tangible 3.4 points to -2.9 balance points, the highest level in nearly one and a half years.

A bit of light and still a lot of darkness

A bit of light and still a lot of darkness – this probably sums up the findings of the KfW-ifo SME Barometer in August. Business sentiment fell for the fourth consecutive month among both SMEs and, on an even lower level, large enterprises. Irrespective of the small rays of light in retail and construction, sentiment thus remains much gloomier than in previous stages when GDP stagnated. The negative sentiment in the export-driven manufacturing sector, which was a guarantor of Germany's economic successes in the past decade, is cause for particular concern. The unusually low sentiment level is most likely a result of the great uncertainty in businesses, which are facing a multitude of transformative challenges and persistent global crises. As household purchasing power is increasing again, the stage is set for at least a moderate overall economic recovery in the coming quarters that will at first be driven mainly by consumption. But the economy is unlikely to return to clear growth until next year. After little more than stagnation this year, we expect real growth of 1% in Germany for 2025.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Aug 2023	Mar 2024	Apr 2024	May 2024	Jun 2024	Jul 2024	Aug 2024			
Business climate											
Manufacturing	SME	-21.0	-22.5	-21.0	-16.3	-21.3	-22.0	-23.7	-1.7	-2.7	-2.4
	LSE	-23.3	-19.4	-20.2	-17.6	-17.4	-19.7	-21.5	-1.8	1.8	-0.5
Construction	SME	-23.1	-28.6	-23.5	-21.3	-20.4	-21.7	-22.1	-0.4	1.0	3.1
	LSE	-11.6	-6.8	-9.0	-4.9	-7.0	-6.3	-2.9	3.4	8.7	1.5
Retail trade	SME	-13.5	-10.2	-8.6	-4.9	-15.9	-18.4	-14.2	4.2	-0.7	-8.3
	LSE	-21.5	-11.0	-12.4	-15.6	-21.6	-22.9	-21.7	1.2	-0.2	-9.1
Wholesale trade	SME	-25.6	-28.6	-30.3	-24.4	-29.5	-30.4	-29.0	1.4	-3.4	-1.9
	LSE	-32.5	-40.1	-39.3	-23.6	-34.6	-33.5	-28.9	4.6	3.6	2.0
Services	SME	-11.3	-8.3	-4.5	-6.0	-4.4	-8.9	-11.2	-2.3	0.1	-1.9
	LSE	-29.8	-24.1	-21.6	-23.5	-18.6	-22.1	-26.0	-3.9	3.8	0.8
Germany	SME	-17.3	-16.3	-11.4	-11.6	-13.6	-17.7	-19.0	-1.3	-1.7	-3.7
	LSE	-27.2	-19.3	-17.2	-18.2	-19.8	-22.1	-25.6	-3.5	1.6	-4.3
Current situation	SME	-9.7	-14.0	-11.0	-11.3	-11.6	-15.8	-17.7	-1.9	-8.0	-2.9
	LSE	-20.7	-22.3	-23.0	-26.5	-26.1	-29.0	-31.8	-2.8	-11.1	-5.0
Expectations	SME	-24.4	-18.5	-12.0	-12.0	-15.7	-19.5	-20.4	-0.9	4.0	-4.4
	LSE	-33.1	-16.9	-12.0	-10.6	-14.2	-15.9	-20.1	-4.2	13.0	-3.6
Employment expectations	SME	-3.5	-3.9	-3.6	-3.7	-5.1	-5.6	-6.4	-0.8	-2.9	-2.0
	LSE	-3.4	-4.4	-6.5	-7.8	-6.8	-9.6	-13.4	-3.8	-10.0	-3.7
Sales price expectations	SME	0.0	-2.3	0.0	0.6	1.6	2.6	2.0	-0.6	2.0	2.6
	LSE	-0.8	1.0	1.8	1.4	-0.8	2.9	-1.7	-4.6	-0.9	-1.3
Export expectations of manufacturing	SME	-16.9	-13.2	-15.4	-14.0	-15.6	-15.3	-15.6	-0.3	1.3	-1.3
	LSE	-7.5	-4.6	-4.1	0.0	-3.8	-4.4	-10.8	-6.4	-3.3	-3.4

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.