

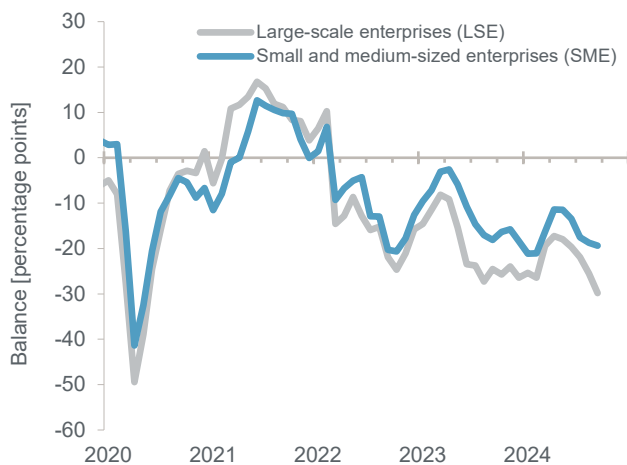
# »» SME sentiment has fallen but remains slightly more stable than in large enterprises

1 October 2024

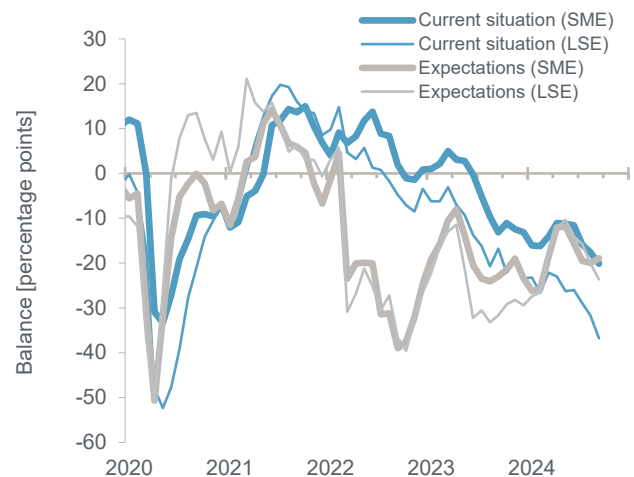
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- SME business sentiment drops for fifth straight month
- Situation assessments continue to deteriorate, expectations have improved moderately
- Business sentiment among large enterprises has fallen significantly
- Economic recovery may be a while coming

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

## SME business confidence is trending downward

The mood among small and medium-sized enterprises (SMEs) in Germany remains on a downward trend. Their business sentiment has dropped for the fifth consecutive month to -19.4 balance points and is now almost as low as it was at the height of the energy crisis in autumn of 2022. Whereas two years ago their expectations in particular were very pessimistic in the face of a looming gas shortage, their situation assessments are now at a similarly low level as their business expectations. Even so, the rate at which sentiment has clouded over in the SME sector has at least slowed somewhat, slipping by 0.6 points.

- SMEs' situation assessments fell by 2.5 points to -20.1 balance points.
- Business expectations, on the other hand, rose by 1.1 points. However, with expectations now at a level of -18.9 points, businesses generally continue to have a very pessimistic view of the near future.

## SME construction firms are slightly more optimistic

Expectations improved most strongly among SMEs in the main construction industry in September. This was most likely due to the ECB's ongoing interest rate reduction cycle. Business sentiment among small and medium-sized construction firms also improved moderately as a result (+2.0 points to -20.2 balance points). Wholesalers, on the other hand, recorded the steepest fall in business sentiment, which slipped by 2.3 points. Sentiment among SME manufacturers and retailers remained in a virtual sideways movement. In the services sector it fell slightly (-0.6 points) but, at -11.7 balance points, is still closest to the zero line, which stands for the long-term average.

## Confidence among large enterprises is in freefall

Sentiment worsened significantly once again among large enterprises. Their business confidence dropped by 4.3 points to -29.8 balance points. Steep drops were reported for both situation assessments (-5.1 points) and expectations (-3.5 points). At now -36.8 balance points, the business situation of large enterprises is now even substantially worse

than that of SMEs (-20.1) Unlike in SMEs, sentiment deteriorated in large enterprises of all sectors including the main construction industry. As large construction firms focus less on dwellings and more on civil engineering, their sentiment has been somewhat better than that of small and medium-sized construction businesses for quite some time now. Sentiment among large construction firms deteriorated in September, however. Large manufacturing enterprises saw a particularly sharp slump in business sentiment. Their situation assessments have worsened rapidly and their business expectations and export expectations have clouded over significantly.

### **Employment and price expectations are falling**

Since mid-September there have been announcements of possible plant closures and job cuts at Volkswagen, Germany's largest industrial employer. The clearly negative employment expectations of large enterprises show that this prospect is not an isolated case. After a decline of 1.9 points in September, they now sit at -15.2 balance points. Employment expectations of SMEs are higher (-1.4 points to -8.0 points) but are also on a downward trend. In the face of persistently weak aggregate economic demand, enterprises' sales price expectations at least are falling as well. For some time now they have been close to their long-term mean value in both size classes, which is likely aligned with the inflation target of 2%.

### **Industry is in rough waters**

The KfW-ifo SME Barometer has identified increasingly dismal business sentiment among SMEs and, in particular, large enterprises, where situation assessments specifically are even worse than among SMEs. Manufacturing is facing major structural challenges going into the green and digital transformation. This is compounded by rather weak global industrial output and strong headwinds from China, which has become one of the most formidable competitors for German industry and also has considerable excess capacity. Businesses in the services sector are doing better, although their sentiment has also deteriorated gradually. Demand in this sector has also started to weaken even though real incomes are increasing again in Germany. But since real wages are likely to continue rising in the coming quarters, household spending remains a legitimate beacon of hope for retail and services and also for the aggregate economy. What poses a risk to this is the growing weakness of the labour market.

## KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Sep 2023	Apr 2024	May 2024	Jun 2024	Jul 2024	Aug 2024	Sep 2024			
<b>Business climate</b>											
Manufacturing	SME	-19.0	-21.1	-16.3	-21.4	-22.1	-23.8	-23.9	-0.1	-4.9	-3.7
	LSE	-19.7	-20.2	-17.5	-17.6	-19.9	-22.0	-27.4	-5.4	-7.7	-4.7
Construction	SME	-26.3	-23.3	-21.1	-20.4	-21.7	-22.2	-20.2	2.0	6.1	0.2
	LSE	-9.2	-8.9	-4.9	-7.1	-6.4	-3.1	-7.1	-4.0	2.1	1.4
Retail trade	SME	-12.3	-9.1	-5.1	-16.1	-18.4	-13.9	-13.8	0.1	-1.5	-5.3
	LSE	-12.2	-12.7	-15.7	-21.6	-22.9	-21.7	-26.2	-4.5	-14.0	-6.9
Wholesale trade	SME	-22.9	-30.4	-24.3	-29.5	-30.4	-29.2	-31.5	-2.3	-8.6	-2.3
	LSE	-30.0	-39.3	-23.7	-34.7	-33.6	-29.2	-32.5	-3.3	-2.5	0.8
Services	SME	-12.3	-4.4	-5.9	-4.2	-8.8	-11.1	-11.7	-0.6	0.6	-5.7
	LSE	-28.0	-21.5	-23.4	-18.5	-22.0	-25.9	-27.4	-1.5	0.6	-4.0
<b>Germany</b>	<b>SME</b>	<b>-18.1</b>	<b>-11.4</b>	<b>-11.5</b>	<b>-13.5</b>	<b>-17.6</b>	<b>-18.8</b>	<b>-19.4</b>	<b>-0.6</b>	<b>-1.3</b>	<b>-6.5</b>
	<b>LSE</b>	<b>-24.5</b>	<b>-17.2</b>	<b>-17.9</b>	<b>-19.6</b>	<b>-21.9</b>	<b>-25.5</b>	<b>-29.8</b>	<b>-4.3</b>	<b>-5.3</b>	<b>-7.5</b>
Current situation	SME	-13.1	-11.0	-11.2	-11.5	-15.8	-17.6	-20.1	-2.5	-7.0	-6.6
	LSE	-16.8	-23.0	-26.3	-26.0	-28.9	-31.7	-36.8	-5.1	-20.0	-7.4
Expectations	SME	-23.0	-12.0	-11.9	-15.6	-19.5	-20.0	-18.9	1.1	4.1	-6.3
	LSE	-31.6	-12.2	-10.3	-14.0	-15.7	-20.1	-23.6	-3.5	8.0	-7.6
<b>Employment expectations</b>	SME	-5.2	-3.6	-3.8	-5.2	-5.6	-6.6	-8.0	-1.4	-2.8	-2.5
	LSE	-5.3	-6.5	-7.7	-6.8	-9.8	-13.3	-15.2	-1.9	-9.9	-5.8
<b>Sales price expectations</b>	SME	1.0	0.1	0.5	1.5	2.6	1.8	0.0	-1.8	-1.0	0.8
	LSE	-0.8	1.8	1.5	-0.7	2.8	-1.6	-2.8	-1.2	-2.0	-1.4
<b>Export expectations of manufacturing</b>	SME	-18.2	-15.5	-14.1	-15.6	-15.3	-15.6	-16.5	-0.9	1.7	-0.7
	LSE	-14.1	-4.4	-0.2	-4.1	-4.9	-11.6	-14.2	-2.6	-0.1	-7.3

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.