

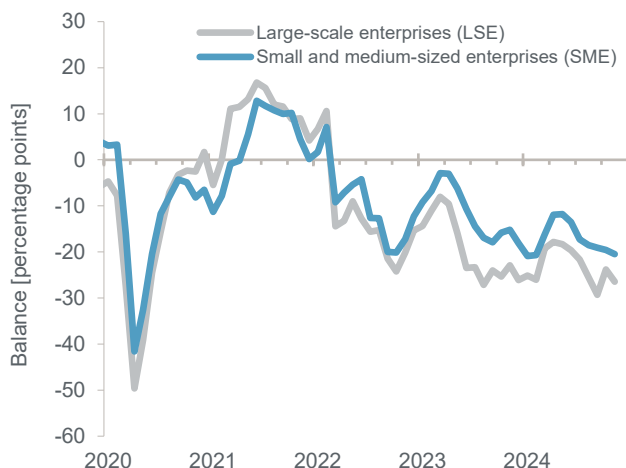
»» SME sentiment as bleak as the autumn weather

4 December 2024

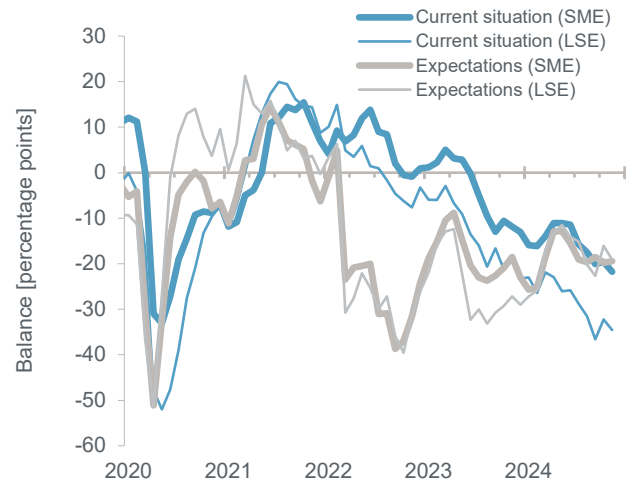
Author: Dr Philipp Scheuermeyer, phone +49 69 7431-4017, philipp.scheuermeyer@kfw.de
Press contact: Nina Luttmer, +49 69 7431-41336, nina.luttmer@kfw.de

- SME business sentiment has fallen for the sixth month in a row
- Expectations are slightly higher but situation assessments have worsened further
- Mood among large enterprises has fallen again after a brief recovery
- Protectionism, the manufacturing crisis and cracks in the labour market are dimming the outlook for 2025

KfW ifo Business Climate Index



KfW ifo sentiment components



Sources: KfW Research, ifo Institute

SME business confidence has continued to slide

The mood among German SMEs has worsened for the sixth straight month. Falling by 0.9 points to -20.5 balance points, business confidence among small and medium-sized enterprises (SMEs) is now well below the long-term average represented by the zero line. The decline in November was caused by a deterioration in situation assessments:

- Assessments of the current business situation fell by 2.2 points to -21.8 balance points. This marks a continuation of the downward trend that has persisted already since mid-2022 with rather short interruptions.
- Six-month business expectations, on the other hand, improved slightly on a low level (+0.4 points to now -19.4 points).

Minor improvement in sentiment among manufacturing firms and retailers

Small and medium-sized manufacturing firms still appear to be mostly unimpressed by the election of Donald Trump as US president and the associated threat of protectionist measures from the US. Their business sentiment rose by a moderate 1.2 points in November thanks to improved situation assessments amid only slightly lower expectations. A minor bright spot in the otherwise so dreary November is the improvement of 2.4 points in business sentiment among SME retailers. Their business confidence has improved since August, including, in particular, their situation assessments, indicating that retail turnover is also growing in the current quarter, after increasing in the third quarter. What is a concern, however, is the sharp decrease in sentiment among SME service providers (-2.9 points), whose situation assessments in particular have dropped. The problems in manufacturing and construction appear to be gradually spilling over here. Sentiment among small and medium-sized

enterprises of the main construction industry fell in November as well (-2.3 points) as a result of declining situation assessments and even more dismal business expectations.

Large enterprises have become more pessimistic again

Business confidence among large enterprises fell by 2.6 points in November, partly offsetting October's strong rise (+5.5 points). The sharpest decline in business sentiment in November was recorded among large industrial firms, whose expectations in particular fell significantly. Concerns over renewed headwinds from the US are likely to have a stronger impact on them than on the more domestically focused SMEs. Although export expectations of large enterprises increased (+1.2 points), they were surveyed only for the short-term view of the next three months.

Employment expectations are trending downward

At the same time, employment expectations continue trending downward. They fell by 0.4 points among both SMEs and large enterprises. After falling sharply in the previous months, however, they are on a much lower level among large enterprises than SMEs (-16.5 vs. -8.7 balance points). Many businesses, especially manufacturers, wholesalers and large retailers, are planning to reduce their workforce. Meanwhile, sales price expectations continue to oscillate around the zero line, which represents the long-term average annual price pressure since 2005.

Economic outlook for 2025 has deteriorated

SME business sentiment in November 2024 is as bleak as grey autumn weather. Retail trade is virtually the only sector with bright spots, where a tentative recovery has begun among small and medium-sized enterprises. Moderate economic growth is likely on the cards in the current quarter and in 2025 as a whole, when household consumption picks up a bit more steam on the back of recent high rates of wage growth, and investment activity stabilises thanks to lower interest rates. The election of Donald Trump, however, means that the already severely battered German export industry will probably also be facing new protectionist headwinds. Besides, until a new Federal Government has formed, the spectre of a protracted phase looms in which Germany's leaders have little scope to react, let alone provide new impetus. We predict price-adjusted economic growth of +0.5% in our new Business Cycle Compass for 2025. The greatest downside risk to this growth is likely to lie in the labour market. To be sure, SMEs have so far been an anchor of stability but employment expectations have clouded over here, too, and it is unclear how long businesses can hold onto their workers while production capacities remain underutilised.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Nov 2023	Jun 2024	Jul 2024	Aug 2024	Sep 2024	Oct 2024	Nov 2024			
Business climate											
Manufacturing	SME	-17.5	-21.5	-22.1	-24.0	-24.0	-26.0	-24.8	1.2	-7.3	-2.4
	LSE	-20.3	-17.6	-19.9	-22.0	-27.3	-22.9	-28.3	-5.4	-8.0	-6.3
Construction	SME	-24.3	-20.3	-21.5	-22.0	-20.1	-19.8	-22.1	-2.3	2.2	0.6
	LSE	-7.3	-7.1	-6.5	-3.4	-7.6	-13.3	-14.4	-1.1	-7.1	-6.1
Retail trade	SME	-10.1	-16.5	-18.6	-13.9	-13.4	-13.3	-10.9	2.4	-0.8	3.8
	LSE	-18.2	-21.9	-22.8	-21.0	-25.2	-18.1	-21.9	-3.8	-3.7	0.2
Wholesale trade	SME	-22.8	-29.5	-30.4	-29.1	-31.3	-30.0	-31.0	-1.0	-8.2	-1.1
	LSE	-27.6	-34.4	-33.5	-29.2	-32.6	-30.5	-29.7	0.8	-2.1	1.4
Services	SME	-9.8	-4.1	-8.6	-10.9	-11.6	-11.9	-14.8	-2.9	-5.0	-4.9
	LSE	-25.4	-18.2	-21.8	-25.6	-27.1	-21.7	-23.1	-1.4	2.3	-2.1
Germany	SME	-15.2	-13.5	-17.3	-18.5	-19.1	-19.6	-20.5	-0.9	-5.3	-3.3
	LSE	-22.9	-19.6	-21.6	-25.5	-29.3	-23.8	-26.4	-2.6	-3.5	-4.3
Current situation	SME	-11.9	-11.5	-15.8	-17.5	-20.1	-19.6	-21.8	-2.2	-9.9	-5.6
	LSE	-18.5	-25.8	-28.8	-31.5	-36.6	-32.2	-34.5	-2.3	-16.0	-5.7
Expectations	SME	-18.5	-15.5	-19.1	-19.6	-18.5	-19.8	-19.4	0.4	-0.9	-1.2
	LSE	-27.2	-14.1	-15.2	-20.2	-22.7	-16.1	-19.1	-3.0	8.1	-2.8
Employment expectations	SME	-3.7	-5.2	-5.6	-6.5	-7.9	-8.3	-8.7	-0.4	-5.0	-2.5
	LSE	-10.6	-6.8	-9.8	-13.3	-15.2	-16.1	-16.5	-0.4	-5.9	-6.0
Sales price expectations	SME	3.9	1.5	2.6	1.8	0.2	0.4	-0.3	-0.7	-4.2	-1.9
	LSE	-1.9	-0.6	2.9	-1.6	-2.5	-0.3	0.0	0.3	1.9	-1.2
Export expectations of manufacturing	SME	-14.2	-15.7	-15.3	-15.5	-16.3	-13.5	-14.4	-0.9	-0.2	0.8
	LSE	-12.7	-4.1	-4.9	-11.5	-14.0	-15.7	-14.5	1.2	-1.8	-7.9

Sources: 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.