

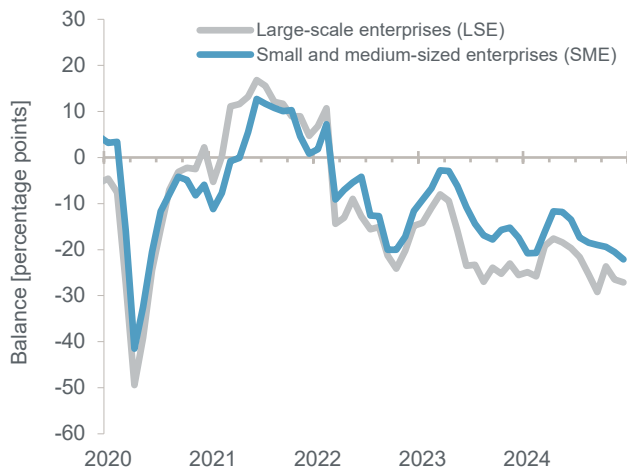
# »» SMEs look to the new year with no confidence

27 December 2024

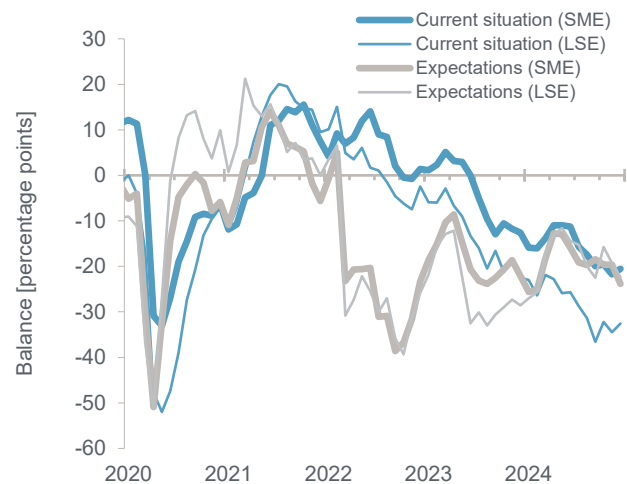
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- SME business sentiment has fallen for seventh straight month
- Situation assessments are up slightly but expectations are now even more pessimistic
- Confidence among large enterprises continues trending downward
- Scepticism is weighing on companies' hiring and investment plans

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

## SMEs have become even more pessimistic

The business climate in the German SME sector is deteriorating more and more. In December, it fell for the seventh month in a row. After dropping by 1.6 points, business confidence among small and medium-sized enterprises (SMEs) now sits at -22.1 balance points – well below the long-term average represented by the zero line. The drop in business sentiment was driven by a renewed surge in pessimism:

- SMEs are now even more sceptical about the next six months than before. Expectations plunged by 4.2 points to -23.8 balance points.
- Even so, assessments of the business situation improved by 1.2 points. But at -20.6 points, they remain on a very low level.

## Considerable downturn in industry and wholesale

The steepest drop in sentiment was reported by small and medium-sized industrial enterprises and the wholesalers that are closely linked to them (both down by -5.7 points). Situation

assessments and business expectations dropped sharply in both of these sectors in December. The export expectations of manufacturing enterprises, on the other hand, fell only slightly and, at now -15.1 balance points, are notably less negative than the overall business expectations of the manufacturing sector (-24.7 balance points). Service enterprises also recorded a significant decline in business sentiment in the reporting month (-2.2 points). But their situation assessments at least improved somewhat (+2.3 points), partly offsetting the sharp deterioration in business expectations (-6.2 points). Business expectations fell noticeably among retailers as well. Their situation assessments stagnated roughly on the level of November, causing business sentiment overall to fall by 2.0 points, which means the catch-up movement that began in the retail sector in the summer is over for now. In the construction industry, on the other hand, a clear improvement in situation assessments was enough to raise business sentiment by 2.1 points.

### **Business sentiment dipped slightly among large enterprises**

Sentiment among large enterprises deteriorated less than among SMEs in December. But basically, the same pattern can be seen here: Situation assessments improved (+1.9 points), while business expectations fell so steeply (-3.1 points) that overall sentiment fell yet again (-0.6 points).

### **Employment expectations have become increasingly negative**

Employment expectations continue trending downward among both SMEs and large enterprises. Among large enterprises, however, the decline was steeper and the drop in employment expectations (from -16.4 to -18.0 points) was even more pronounced than among SMEs (from -8.7 to -9.1 points). Many businesses, especially manufacturers, wholesalers and large retailers, are planning job cuts.

Of some concern is the fact that sales price expectations of businesses in both size classes rose sharply in December. However, they are still near the zero line and a persistent upward pressure on prices is unlikely given the weak economic performance.

### **Firms have little optimism about 2025**

At the end of a difficult year, business sentiment fell sharply yet again, as businesses from all sectors have become even more uncertain about what the near future holds in store. This may have to do with the fact that they did not process Donald Trump's re-election fully until they responded to the December survey.<sup>1</sup> However, the only moderate declines in recent export expectations and the relatively broad deterioration in business expectations appear to speak against this interpretation. What seems more plausible is that the renewed rise in political uncertainty and the likely much reduced capacity of the government to act over the next several months after the breakup of the coalition is affecting business expectations. Most of all, however, the many news reports about layoffs in German corporations are likely to have weighed on sentiment. If industrial firms reduce highly paid jobs, the loss of purchasing power or uncertainty among consumers could also spill over to other sectors. At the same time, negative business expectations in practically all sectors are weighing on enterprises' employment and investment plans. According to various business surveys, investment intentions for 2025 are in fact unusually negative<sup>2</sup> and it is uncertain whether loosening monetary policy or a change in government can turn the tide.

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<sup>1</sup> Around 50% of responses to the November survey of the ifo Institute were received before 6 November. Cf. LinkedIn profile of Klaus Wohlrabe, head of ifo Surveys.

<sup>2</sup> Cf. [Autumn 2024 Economic Survey of the German Economic Institute: Keine Signale für eine Wende – Institut der deutschen Wirtschaft \(IW\)](#) (*No signs of a trend reversal – German Economic Institute* (our title translation, in German); and specifically for industry: [Time series - European Commission](#) (Investment Data).

## KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Dec 2023	Jul 2024	Aug 2024	Sep 2024	Oct 2024	Nov 2024	Dec 2024			
<b>Business climate</b>											
Manufacturing	SME	-21.9	-21.9	-23.8	-24.0	-26.1	-25.2	-30.9	-5.7	-9.0	-4.2
	LSE	-25.1	-20.0	-22.1	-27.4	-23.1	-28.6	-31.1	-2.5	-6.0	-4.4
Construction	SME	-27.5	-21.5	-22.1	-20.0	-19.7	-21.9	-19.8	2.1	7.7	0.7
	LSE	-14.4	-6.3	-3.2	-7.4	-13.2	-16.1	-11.1	5.0	3.3	-7.8
Retail trade	SME	-11.2	-18.4	-13.8	-13.4	-13.5	-11.2	-13.2	-2.0	-2.0	2.6
	LSE	-17.0	-22.5	-21.4	-25.0	-17.9	-21.7	-17.5	4.2	-0.5	3.9
Wholesale trade	SME	-27.1	-30.1	-28.9	-31.3	-30.2	-31.5	-37.2	-5.7	-10.1	-2.9
	LSE	-34.5	-33.1	-29.0	-32.6	-30.7	-30.3	-35.2	-4.9	-0.7	-0.5
Services	SME	-11.4	-8.6	-10.9	-11.6	-11.9	-14.7	-16.9	-2.2	-5.5	-4.1
	LSE	-27.8	-21.6	-25.5	-27.0	-21.5	-22.9	-25.3	-2.4	2.5	1.5
<b>Germany</b>	<b>SME</b>	<b>-17.4</b>	<b>-17.4</b>	<b>-18.5</b>	<b>-19.0</b>	<b>-19.4</b>	<b>-20.5</b>	<b>-22.1</b>	<b>-1.6</b>	<b>-4.7</b>	<b>-2.4</b>
	<b>LSE</b>	<b>-25.5</b>	<b>-21.6</b>	<b>-25.4</b>	<b>-29.2</b>	<b>-23.6</b>	<b>-26.5</b>	<b>-27.1</b>	<b>-0.6</b>	<b>-1.6</b>	<b>-0.3</b>
Current situation	SME	-12.6	-15.7	-17.5	-20.0	-19.6	-21.8	-20.6	1.2	-8.0	-2.9
	LSE	-22.5	-28.7	-31.4	-36.6	-32.2	-34.5	-32.6	1.9	-10.1	-0.9
Expectations	SME	-22.1	-19.1	-19.7	-18.4	-19.6	-19.6	-23.8	-4.2	-1.7	-1.9
	LSE	-28.6	-15.3	-20.0	-22.5	-15.8	-19.3	-22.4	-3.1	6.2	0.1
<b>Employment expectations</b>	SME	-3.2	-5.6	-6.5	-7.9	-8.3	-8.7	-9.1	-0.4	-5.9	-2.0
	LSE	-7.9	-9.8	-13.3	-15.1	-15.9	-16.4	-18.0	-1.6	-10.1	-4.0
<b>Sales price expectations</b>	SME	6.1	2.6	1.9	0.1	0.3	0.0	4.0	4.0	-2.1	-0.1
	LSE	0.3	2.9	-1.5	-2.5	-0.3	0.2	3.2	3.0	2.9	1.4
<b>Export expectations of manufacturing</b>	SME	-17.9	-15.1	-15.4	-16.2	-13.5	-14.5	-15.1	-0.6	2.8	1.2
	LSE	-13.4	-5.0	-11.6	-14.0	-15.5	-14.1	-14.7	-0.6	-1.3	-4.6

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.