

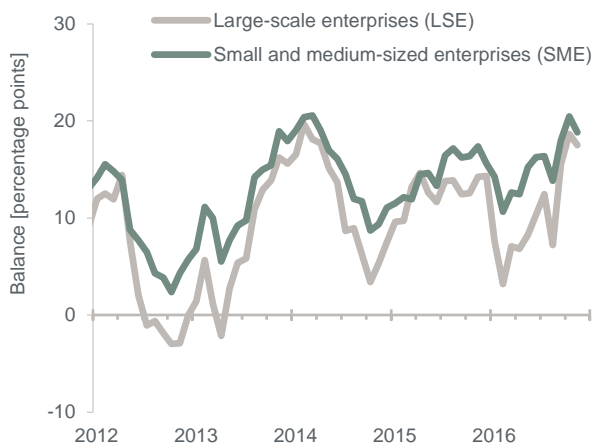
## »» Business climate: SMEs are only moderately impressed by Trump

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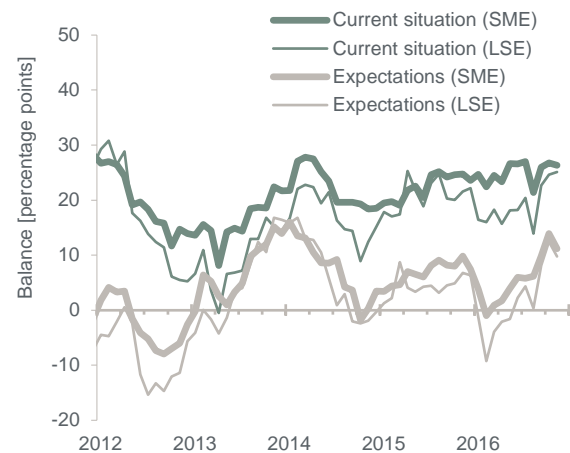
- Industry drags SME business sentiment down slightly
- Spirits are high in construction and retail
- Slight drop in sentiment among large enterprises
- For now, Germany's upswing is not in jeopardy

### KfW-ifo business climate



Source: KfW, ifo

### KfW-ifo climate components



### SME business sentiment is cooling off slightly

The unexpected election of Donald Trump as the 45<sup>th</sup> president of the USA, who was successful not least because of his protectionist ideas, is weighing on sentiment among German exporters. Initial reactions within the broader business community, however, show that companies are only moderately impressed. After two very strong increases in the preceding months, sentiment among German SMEs dropped by a comparatively moderate 1.7 points to 18.8 balance points in November. Their outlook for the future in particular is somewhat more subdued than in the previous month:

- Small and medium-sized enterprises' business expectations dropped by 2.7 points to 11.2 balance points but remained on the second highest level since March 2014.
- Irrespective of the negligible decline of 0.5 points, SMEs were still very satisfied with their current business situation. At currently 26.3 balance points, companies' situation assessments reaffirm the high level on which they have been operating all year.

### Similar mood among large enterprises

The mood among broad parts of the large enterprise sector is nearly identical. In November their expectations dropped by 2.6 points to 9.8 balance points. Both the magnitude of the decline and the level of the expectation indicator were thus very similar to the values in the SME sector. Large enterprises rated their current business situation minimally better than in the previous month (+0.5 points to 25.1 balance points). But just as in the case of SMEs, the extent of the variation here is so small that it is practically insignificant. Thus, on balance large enterprises rated their business climate slightly lower as well (-1.2 points to 17.5 balance points). All in all, the differences between the two company size classes decreased very considerably in the past months – not just with regard to their business climate, but also in terms of its components.

### Industrial firms are starting to feel uneasy

The spectre of national isolationism and more protectionism is beginning to cause uneasiness among industrial firms in particular. This is understandable because they rely on open

borders more than any other sector in Germany. The business climate of small and medium-sized manufacturing enterprises dropped by 1.8 points to 14.0 balance points. Within the SME sector, however, manufacturing is the only segment where sentiment deteriorated in November. Business confidence among large enterprises dropped by 2.5 points to 15.9 balance points in manufacturing and by 1.9 points to 21.6 balance points in wholesale, where firms operate intensively at the intersection between national and international markets.

### **Domestically oriented sectors are in very high spirits**

By contrast, the mood in the two domestically oriented sectors, construction and retail, continued to be excellent. While sentiment among SMEs in these two sectors remained stable on a high level or rose slightly, it climbed more than six points among large enterprises in both sectors. The sector-specific business climate indicators for the construction industry, which have been available since January 1991, ascended to new all-time highs in both enterprise size classes. Consumption and residential construction remain important growth drivers of the economy.

### **The economic outlook for 2017 is good**

Despite the somewhat more subdued business climate in November, we maintain our fundamentally positive economic forecast for 2017. It is supported by the consistently good mood in the domestic economy, which has already buoyed growth up to now. Besides, despite recent declines, general business expectations and sentiment in the industrial sector are still significantly above the historic normal level. Enterprises appear to also recognise definitive opportunities in the generally expected modest recovery of the global economy, and are not just seeing a concentration of political risks on the international stage. In early December, Austria elected a new president who stands for openness and European solutions. Seen in isolation, that may have a calming effect. At the same time, however, the clear popular rejection of constitutional reform in Italy has generated significant new uncertainties. We expect Germany's economy to grow 1.3% in 2017. The slowdown of half a percentage point on this year's GDP growth will primarily be due to strong variations in the number of working days. The upswing that started in 2014 will thus continue with only slightly reduced underlying momentum. ■

# KfW Research

## KfW-ifo SME Barometer: November 2016

### Attachment: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Nov/15	Jun/16	Jul/16	Aug/16	Sep/16	Okt/16	Nov/16			
<b>Business climate</b>											
Manufacturing	SME	13.5	10.7	10.8	8.2	12.4	15.8	14.0	-1.8	0.5	4.2
	LSE	13.8	6.6	9.0	3.6	14.8	18.4	15.9	-2.5	2.1	9.9
Construction	SME	24.4	26.6	27.7	28.2	30.4	32.5	32.8	0.3	8.4	4.4
	LSE	22.3	27.2	26.5	29.2	33.4	31.4	37.6	6.2	15.3	6.5
Retail trade	SME	29.2	23.0	22.3	20.7	23.1	23.7	23.7	0.0	-5.5	1.5
	LSE	7.7	6.3	13.1	7.3	6.9	8.5	14.6	6.1	6.9	1.1
Wholesale trade	SME	19.1	23.2	21.7	15.1	23.3	20.4	20.5	0.1	1.4	1.4
	LSE	17.5	23.3	19.8	16.6	20.0	23.5	21.6	-1.9	4.1	1.8
<b>All economic sectors</b>	<b>SME</b>	<b>17.4</b>	<b>16.3</b>	<b>16.4</b>	<b>13.8</b>	<b>18.0</b>	<b>20.5</b>	<b>18.8</b>	<b>-1.7</b>	<b>1.4</b>	<b>3.6</b>
	<b>LSE</b>	<b>14.3</b>	<b>10.3</b>	<b>12.5</b>	<b>7.2</b>	<b>15.5</b>	<b>18.7</b>	<b>17.5</b>	<b>-1.2</b>	<b>3.2</b>	<b>7.2</b>
Current situation	SME	24.7	26.6	27.0	21.4	26.0	26.8	26.3	-0.5	1.6	1.4
	LSE	21.6	18.2	20.4	13.9	22.6	24.6	25.1	0.5	3.5	6.6
Expectations	SME	9.9	6.0	5.8	6.1	9.8	13.9	11.2	-2.7	1.3	5.7
	LSE	6.8	2.3	4.3	0.3	8.1	12.4	9.8	-2.6	3.0	7.8
West Germany	SME	18.1	16.8	17.2	14.6	18.7	21.2	19.3	-1.9	1.2	3.5
	LSE	13.8	10.5	12.9	7.7	15.9	19.3	18.1	-1.2	4.3	7.4
East Germany	SME	13.4	13.6	11.4	9.0	13.9	16.1	16.0	-0.1	2.6	4.0
	LSE	25.4	5.9	2.9	-4.8	5.8	3.9	4.3	0.4	-21.1	3.4
<b>Employment expectations</b>	SME	10.0	10.0	9.5	9.9	11.8	12.8	12.3	-0.5	2.3	2.5
	LSE	9.3	11.7	10.4	11.7	12.9	15.3	14.5	-0.8	5.2	2.9
<b>Sales price expectations</b>	SME	-1.2	-1.5	-0.3	0.1	0.5	2.9	4.4	1.5	5.6	3.2
	LSE	-5.3	-1.2	0.0	-4.4	-1.6	1.7	0.5	-1.2	5.8	2.1

Source: KfW, ifo

Explanations and abbreviations:

\*Seasonally and mean adjusted (long-term mean since January 1991 = 0)

S(mall and) M(edium-sized) E(nterprises)

L(arge-) Scale E(nterprises)

Change in percentage points m(onth)-o(ver)-y(ear)

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

### 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 well-known ifo business climate index for which about 7,000 enterprises from trade and industry (manufacturing, construction, wholesale and retail trades) from western and eastern Germany are polled every month on current and future business, including around 5,600 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 limits have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million) and the construction industry (up to 200 employees). 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 are also expressed as balance figures. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.