

»» German SMEs keep their cool as trade conflict intensifies

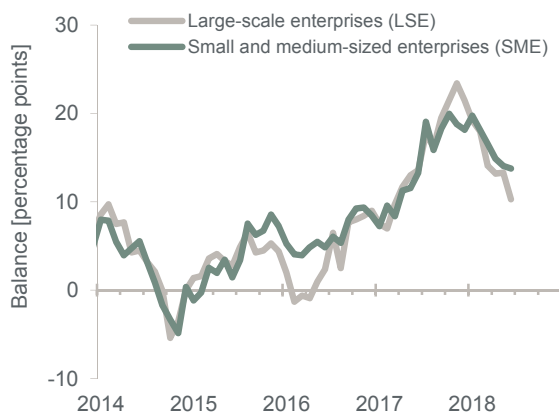
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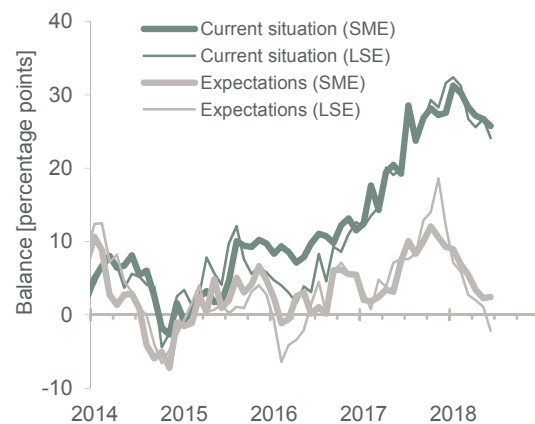
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- SME business climate dropped only marginally in June
- Expectations stabilised despite escalating trade conflict
- Business situation deteriorated slightly but remains on a high level
- Large enterprises' business situation and expectations are trending downward

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business climate has stabilised slightly

In June, business confidence in Germany's SME sector deteriorated for the fifth consecutive month but only moderately. After slipping 0.3 points, it is now at 13.8 balance points. The imminent escalation of the trade conflict with the US appears to be generating only little additional uncertainty among SMEs. At the time of the survey, the German government crisis had not yet deepened.

- Business expectations of small and medium-sized enterprises stabilised after several declines, rising a modest 0.2 points. They are currently just above the average since 2005. The level of 2.5 balance points shows that optimistic businesses continue to slightly outnumber pessimists.
- SMEs' business situation, by contrast, dropped by one point in June. The downward trend that started in January thus continues unabated. At a level of 25.7 balance points, however, the business situation remains excellent.

Sentiment among large enterprises is down again

After improving marginally in the previous month, sentiment among large enterprises dropped sharply in June (-3.0 points to 10.3 balance points). Both the situation and their expectations trended downward. The business situation is still on a very high level of 24.1 balance points but expectations are now slightly below average at -2.2 balance points.

Sentiment is down in most sectors

This time, the sector comparison shows only few upward outliers. The outstanding sentiment in the construction industry has improved among large companies but SME construction firms have become slightly less confident. SME service providers are slightly more upbeat. Large service providers, however, reported significantly lower sentiment (-5.0 points to 14.5 balance points). Their lower confidence level is primarily the result of lower business expectations but these have been fluctuating very erratically for some months already. Large-scale retailers are always most susceptible to fluctuations in the business climate, followed by wholesalers, which puts into perspective the declines of -6.1 points among retailers and -4.3 points among large wholesalers. Both are roughly equal to an average monthly variation. SME

manufacturers saw their business climate deteriorate marginally, mostly due to lower business expectations.

Risk of protectionism has grown

As was the case in previous months already, the slump in business expectations – especially among manufacturers and business service providers – can be primarily explained with increased trade risks. This is also illustrated by manufacturers' export expectations, which dropped yet again (SMEs: -0.7 points to 1.1 balance points and large enterprises: -1.5 points to 1.0 points). US tariffs on steel and aluminium, which had been threatened for a long time, have also been in effect for EU exports since 1 June. An even heavier burden is the planned introduction of US tariffs on automobile imports, as the US Department of Commerce started a relevant investigation at the end of May. Also disconcerting is the escalation of the trade conflict between the US and China. The announcement by Harley-Davidson to shift production overseas illustrates that the consequences of an escalating tariff tit-for-tat will not remain confined to exports. Possible production relocations also threaten jobs. Germany is particularly vulnerable because of its integration into global value chains.

Employment expectations are stable, sales price expectations have risen, capacity utilisation is high

The domestic economy continues to bolster Germany's upswing. Employment expectations are stable on a high level, suggesting the jobs boom will continue. The higher sales price expectations also show that businesses expect vigorous domestic demand in future as well. Besides, both SMEs and large enterprises are operating close to capacity, which should encourage expansion investments, although that prospect is becoming increasingly uncertain.

Risks do not spell an end to the upswing yet

The mounting political risks are currently unsettling the capital markets. The KfW-ifo SME Barometer shows that large enterprises are also concerned. Small and medium-sized enterprises, by contrast, appear to be less preoccupied with political news, which has to do with their lower dependence on transatlantic trade. They are cautiously optimistic about the future as their business situation remains very good, despite some decreases. The downward risks to our growth forecast of 2.1% for Germany this year continue to rise. The trade risks could soon have a negative impact on the business cycle, especially by hampering investment activity and endangering jobs. ■

KfW Research

KfW-ifo SME Barometer: June 2018

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jun/17	Jan/18	Feb/18	Mar/18	Apr/18	May/18	Jun/18			
Business climate											
Manufacturing	SME	15.8	20.1	17.5	15.2	13.0	13.0	12.2	-0.8	-3.6	-4.9
	LSE	17.6	23.7	19.3	16.8	13.3	11.3	10.1	-1.2	-7.5	-8.4
Construction	SME	22.7	26.7	24.3	27.9	29.3	28.6	27.6	-1.0	4.9	2.2
	LSE	26.8	27.4	26.8	23.1	28.0	30.4	31.8	1.4	5.0	4.3
Retail trade	SME	16.4	17.1	16.4	9.8	11.2	13.1	9.3	-3.8	-7.1	-3.2
	LSE	12.1	5.8	4.9	-3.0	2.0	2.3	-3.8	-6.1	-15.9	-2.4
Wholesale trade	SME	19.1	16.5	19.5	15.3	5.7	12.7	10.7	-2.0	-8.4	-7.4
	LSE	15.5	16.2	15.3	9.4	5.2	9.5	5.2	-4.3	-10.3	-7.0
Services	SME	8.2	18.6	16.1	15.9	12.6	11.6	12.1	0.5	3.9	-4.8
	LSE	7.4	17.7	20.6	18.7	17.7	19.5	14.5	-5.0	7.1	-1.8
Germany	SME	13.3	19.8	18.2	16.6	14.9	14.1	13.8	-0.3	0.5	-3.9
	LSE	13.6	19.2	18.0	14.1	13.2	13.3	10.3	-3.0	-3.3	-4.8
Current situation	SME	19.2	31.2	30.2	28.3	27.1	26.7	25.7	-1.0	6.5	-3.4
	LSE	19.9	32.4	31.2	26.7	25.6	26.7	24.1	-2.6	4.2	-4.6
Expectations	SME	7.4	9.0	6.9	5.5	3.5	2.3	2.5	0.2	-4.9	-4.4
	LSE	7.6	7.1	5.9	2.7	2.0	1.1	-2.2	-3.3	-9.8	-4.9
Employment expectations	SME	7.5	14.7	14.3	13.6	12.9	13.1	13.4	0.3	5.9	-1.1
	LSE	9.8	21.1	19.1	17.2	17.2	16.8	16.8	0.0	7.0	-2.2
Sales price expectations	SME	5.4	12.0	13.1	11.9	10.1	11.7	12.5	0.8	7.1	-0.9
	LSE	3.7	9.2	7.5	4.9	11.2	7.3	9.7	2.4	6.0	2.2
Export expectations of manufacturing	SME	4.1	3.9	3.4	3.0	3.1	1.8	1.1	-0.7	-3.0	-1.4
	LSE	12.1	11.6	10.1	5.2	6.5	2.5	1.0	-1.5	-11.1	-5.6

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 time series now 2005 instead of 1991, consideration of sport 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 time series 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.