

## »» Stabilisation of SME business sentiment continues

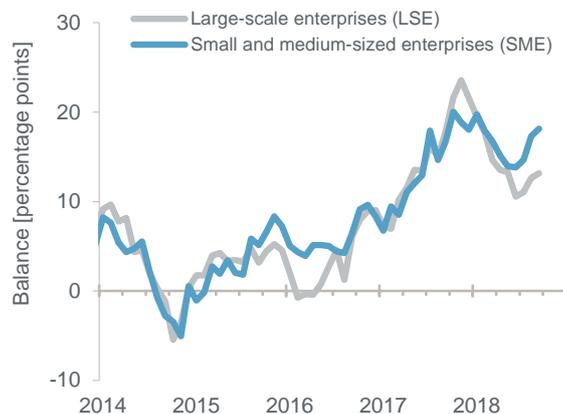
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Author: Dr Philipp Scheuermeyer, phone +49 69 7431-4017, philipp.scheuermeyer@kfw.de

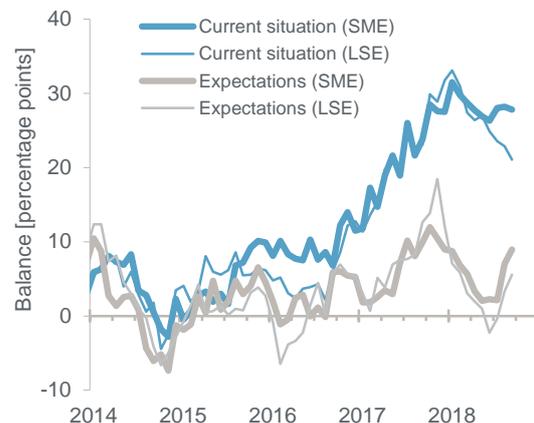
Press contact: Christine Volk, +49 69 7431-3867, christine.volk@kfw.de

- SME business climate has improved for the third consecutive month
- Business expectations are rising but situation assessments have dropped slightly
- Situation assessments and expectations have also drifted in different directions among large enterprises
- Robust business sentiment underscores the stability of the upturn

### KfW-ifo business climate



### KfW-ifo climate components



Sources: KfW Research, ifo Institute

### Is SME sentiment trending upward again?

Sentiment among small and medium-sized enterprises has improved for the third consecutive month. In September the SME business climate climbed by 0.8 points to 18.1 balance points. Since Europe has moved out of the firing line of the US administration's trade policy aggressions, business expectations in particular have improved. Situation assessments have fallen slightly but remain on a high level:

- Expectations have improved again in September, as they did in the previous month. After the last two increases, most recently by 1.9 points to 8.9 balance points, SMEs are now remarkably optimistic again.
- Situation assessments have fallen minimally by -0.4 points. As they are already on a high level (27.8 balance points), there is little upside potential. Overall, the SME sector has most likely grown at a robust rate in the summer quarter.

### Large enterprises: situations and expectations diverge

The variations in expectations (+2.2 points to 5.5 balance points) and situation assessments (-1.8 points to 21.1 balance points) were both just slightly more pronounced among large enterprises than SMEs. The downward trend in situation assessments, especially among exporters and large service providers, is most likely related to the weakening economic momentum of Germany's trading partners. The declining situation assessments by large construction firms, which rose at an unusually strong pace to an all-time high in July, also play a crucial role. The overall business climate among large enterprises improved slightly in late summer (+0.5 balance points) and now lies at 13.2 balance points.

### Sentiment improvement among SMEs is widely spread

The most recent improvement in the SME business climate is based on a moderately positive development across all industries. A noteworthy leap of +3.2 points was recorded by small and medium-sized construction firms, where sentiment is already euphoric (now 41.1 balance points). Construction has climbed to a new all-time high for the third consecutive month.

The capacity utilisation level of around 79% is extraordinarily high compared with the long-term average (71%) but hardly appears to weigh on the business expectations of SME construction companies. Business sentiment among manufacturers (+1.6 points to 14.8 balance points) has improved at almost the same rate as in the retail sector (+1.9 points to 14.5 balance points). Sentiment among SME wholesalers and service providers is now 12.3 and 17.4 balance points, respectively, following moderate upward movements.

### **Risk of protectionism is more indirect than direct**

So far this year, the expectation component of the KfW-ifo business climate index has been following a U-shaped curve. After climbing skyhigh in autumn of last year, expectations levelled out at a more or less neutral assessment regarding the further development of business. The low point of business expectations coincided with the peak of trade policy threats levelled against Europe in the middle of the year. Since the transatlantic trade conflict eased following the Trump-Juncker meeting, business expectations have risen again noticeably. Businesses are hardly disturbed by the trade conflict between the US and China, which was bound to escalate during the survey period. But the transpacific trade conflict may harm them too if economic activity and,

with it, demand from China and other emerging economies should slow noticeably. Besides, large enterprises in particular would suffer from disruptions to their value chains. Small and medium-sized enterprises in Europe, however, could also gain market share as a result of the impasse between the US and China. On the other hand, a hard Brexit, which is currently an acute risk, would also be problematic for SMEs that are heavily oriented to trade in the EU internal market.

### **Domestic economy will drive the upswing further**

The results of the KfW-ifo SME Barometer for September show that businesses are optimistic about the future despite many risks. This has reduced the likelihood that they will slam on the investment brake, although any investment restraint by important trading partners such as China and the United Kingdom would be detrimental to German exports. The strong domestic economy should nevertheless drive the upswing further at a vigorous pace. Conditions remain good, especially for private consumption and construction, also because of the very high employment expectations. We still expect gross domestic product to continue growing at a rate of 1.8% for 2018 as a whole. ■

# KfW Research

## KfW-ifo SME Barometer: September 2018

### KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Sep/17	Apr/18	May/18	Jun/18	Jul/18	Aug/18	Sep/18			
<b>Business climate</b>											
Manufacturing	SME	18.0	12.9	12.8	12.3	12.5	13.2	14.8	1.6	-3.2	0.8
	LSE	20.1	13.1	11.2	10.3	9.9	11.4	12.2	0.8	-7.9	-0.4
Construction	SME	24.7	28.7	28.2	26.8	36.5	37.9	41.1	3.2	16.4	10.6
	LSE	31.1	27.5	29.8	31.1	32.0	38.7	36.1	-2.6	5.0	6.1
Retail trade	SME	13.2	11.0	13.0	9.5	11.8	12.6	14.5	1.9	1.3	1.8
	LSE	1.4	1.7	2.6	-4.2	-7.2	-5.1	-1.3	3.8	-2.7	-4.6
Wholesale trade	SME	19.6	5.3	12.5	10.9	10.4	11.8	12.3	0.5	-7.3	1.9
	LSE	18.9	5.0	9.6	5.7	7.7	13.5	10.8	-2.7	-8.1	3.9
Services	SME	15.4	12.8	11.6	12.4	12.4	17.3	17.4	0.1	2.0	3.4
	LSE	21.2	18.1	19.6	14.9	19.6	18.5	21.2	2.7	0.0	2.2
<b>Germany</b>	<b>SME</b>	<b>16.7</b>	<b>15.1</b>	<b>13.9</b>	<b>13.8</b>	<b>14.6</b>	<b>17.3</b>	<b>18.1</b>	<b>0.8</b>	<b>1.4</b>	<b>2.4</b>
	<b>LSE</b>	<b>17.9</b>	<b>13.6</b>	<b>13.3</b>	<b>10.6</b>	<b>11.1</b>	<b>12.7</b>	<b>13.2</b>	<b>0.5</b>	<b>-4.7</b>	<b>-0.2</b>
Current situation	SME	23.8	27.7	26.9	26.3	28.0	28.2	27.8	-0.4	4.0	1.0
	LSE	23.1	26.4	27.0	24.9	23.6	22.9	21.1	-1.8	-2.0	-3.6
Expectations	SME	9.9	3.3	2.0	2.2	2.1	7.0	8.9	1.9	-1.0	3.5
	LSE	12.6	1.9	0.9	-2.3	-0.4	3.3	5.5	2.2	-7.1	2.6
<b>Employment expectations</b>	SME	10.3	12.5	12.7	13.1	12.4	12.2	12.3	0.1	2.0	-0.5
	LSE	15.6	16.8	16.5	17.2	19.4	18.8	18.6	-0.2	3.0	2.1
<b>Sales price expectations</b>	SME	8.0	9.8	11.2	12.3	14.5	14.8	14.1	-0.7	6.1	3.4
	LSE	9.2	10.9	7.1	9.6	10.9	9.8	8.1	-1.7	-1.1	0.4
<b>Export expectations of manufacturing</b>	SME	7.2	3.0	1.9	1.1	2.9	2.0	2.2	0.2	-5.0	0.4
	LSE	10.9	6.3	2.3	1.1	0.4	5.3	1.8	-3.5	-9.1	-0.7

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 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.