

## »» SMEs had a golden October but large enterprises weathered autumn storms

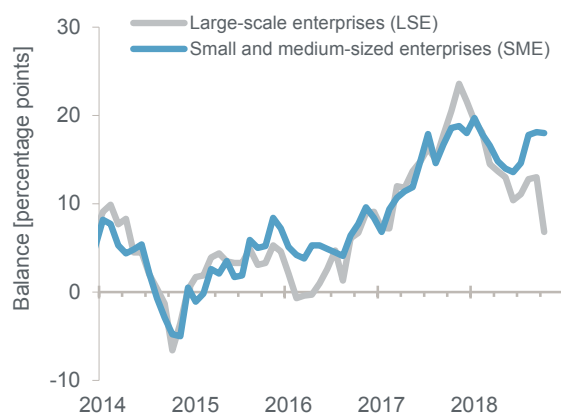
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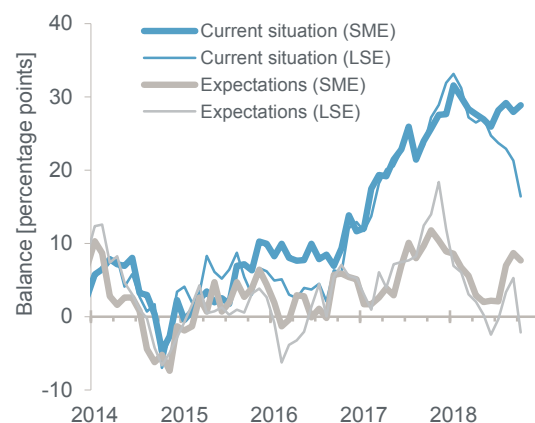
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- SME business climate remains strong and steady
- Situation assessments are up slightly but expectations are somewhat more pessimistic
- Sentiment among large enterprises drops sharply
- SMEs will help the upswing to continue

### KfW-ifo business climate



### KfW-ifo climate components



Source: KfW Research, ifo Institute

### SMEs – an anchor of stability

In October, SMEs proved to be an anchor of stability for business sentiment. While the business climate among large enterprises nosedived, sentiment among small and medium-sized enterprises remained practically unchanged (-0.1 points) on a high level of 18.0 balance points. Global risks from factors such as the trade conflicts of the US, a possible hard landing of the Chinese economy, the Italian government's confrontation course on fiscal policy and a disorderly Brexit appear to be less of a concern for SMEs than for large enterprises.

- SMEs' already excellent business situation assessments improved by 0.9 points. At 28.8 balance points, they are close to the record level of January.
- SMEs are now slightly more pessimistic (-1.0 points) after business expectations improved noticeably in late summer but the balance of 7.7 points indicates that their expectations for the future are still more positive than average.

### Sentiment plummets among large enterprises

In October the business climate in the large enterprise sector was clearly more negative than among SMEs. Business expectations fell by a particularly sharp -7.4 points, 2.7 times the typical monthly variation. The positive rebound of business expectations in late summer that was nurtured by signs of easing tensions in the trade conflict between Europe and the US has thus been obliterated again. Situation assessments also dropped noticeably after already declining continuously from the January high over the course of the year.

### Construction is still booming but sentiment among large retailers and service providers has fallen sharply

The deterioration in sentiment among large enterprises pervades almost all sectors – with the exception of construction, which has achieved a new record high. The sentiment drop is particularly clear in large manufacturing firms, most of which are heavily geared to exports, but the business climate has also deteriorated more than average among large service providers and retailers. Even considering the very volatile results of the survey among large retailers, the most recent decline by 11.7 points is remarkable. The weakness is likely driven by car dealers, which are strongly represented in the sample and whose problems in the sale of diesel cars were exacerbated by new court rulings handed down during

the survey period. But SME retailers also reported a drop in business sentiment (-3.2 points), although the signs for private consumption are actually outstanding amid steady employment growth and rising real wages. Small and medium-sized service companies rather appear to be benefiting from strong domestic demand but not so the large service providers, which are often dependent on manufacturing and more reliant on the global business cycle. While the former reported another minor improvement in sentiment from a high level (+0.4 points to 17.3 balance points), sentiment among large service providers fell by 5.7 points, 2.5 times the typical monthly variation. Wholesalers also reported slightly lower sentiment. But given the typically very volatile responses from this sector, the variations are rather negligible.

### **Expectations are fraught with many risks**

During the survey period, manufacturers' export expectations also pointed downward. This applies to large enterprises even more than to SMEs, as the former's export expectations have now fallen for the second time after a temporary high in August and, at -0.8 balance points, have now even turned negative. The global downside risks that became more evident in autumn are probably one reason for this development. Negotiations on a withdrawal agreement with the UK, for example, failed again in October. But that would be the precondition for the start of a transition phase that will

also be important for the German economy. As the US and China are increasingly digging in their heels in the trade war, some businesses are probably also concerned about a cyclical downturn in China and, thus, weaker export demand. Others, in turn, could see themselves as the 'silent third' who stands to gain from trade diversion effects.

### **A generally mixed start to the fourth quarter**

Since the hard economic data have been overwhelmingly weak, only very low GDP growth can be expected for the third quarter. But since business sentiment in late summer was very good at the same time, this should be a transient dip in growth. It will presumably correlate very closely with the introduction of a new mandatory test procedure for vehicle emissions (WLTP) which has led to delays in approvals for certain types of models. This initially led to a decrease in production in the automobile industry, which has likely contributed to the decline in business situation assessments among large enterprises. The delivery problems also constitute an at least temporary burden for car dealers. Owing to the rapid drop in sentiment among large enterprises, however, the start to the fourth quarter is only mixed, although it must not be forgotten that sentiment has been on a high level in a long-term comparison. The results of the KfW-ifo SME Barometer also give reason to hope that small and medium-sized enterprises will act as a cyclical stabiliser in times of considerable global uncertainties. ■

# KfW Research

## KfW-ifo SME Barometer: October 2018

### KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Oct/17	May/18	Jun/18	Jul/18	Aug/18	Sep/18	Oct/18			
<b>Business climate</b>											
Manufacturing	SME	18.4	12.7	11.8	12.3	12.9	14.9	12.2	-2.7	-6.2	1.1
	LSE	25.5	11.3	10.3	9.8	11.1	11.7	5.8	-5.9	-19.7	-0.9
Construction	SME	27.5	28.4	26.6	36.4	37.9	40.8	41.1	0.3	13.6	9.5
	LSE	30.2	29.4	30.4	33.5	38.3	35.6	39.2	3.6	9.0	6.6
Retail trade	SME	17.1	13.0	9.5	11.7	12.0	14.1	10.9	-3.2	-6.2	0.9
	LSE	9.2	1.5	-4.1	-7.1	-5.6	-1.5	-13.2	-11.7	-22.4	-3.5
Wholesale trade	SME	17.8	12.1	10.6	10.4	11.7	12.2	11.2	-1.0	-6.6	0.7
	LSE	14.2	9.7	5.8	7.7	13.3	10.7	8.7	-2.0	-5.5	3.2
Services	SME	16.7	11.6	12.0	12.4	17.3	16.9	17.3	0.4	0.6	5.2
	LSE	21.3	19.7	14.5	19.6	18.5	20.9	15.2	-5.7	-6.1	0.3
<b>Germany</b>	<b>SME</b>	<b>18.6</b>	<b>14.0</b>	<b>13.6</b>	<b>14.6</b>	<b>17.8</b>	<b>18.1</b>	<b>18.0</b>	<b>-0.1</b>	<b>-0.6</b>	<b>3.9</b>
	<b>LSE</b>	<b>20.5</b>	<b>13.0</b>	<b>10.4</b>	<b>11.1</b>	<b>12.8</b>	<b>13.0</b>	<b>6.8</b>	<b>-6.2</b>	<b>-13.7</b>	<b>-0.6</b>
Current situation	SME	25.6	26.9	25.9	28.1	29.1	27.9	28.8	0.9	3.2	1.6
	LSE	27.2	27.1	24.7	23.7	22.9	21.3	16.4	-4.9	-10.8	-5.0
Expectations	SME	11.8	2.0	2.2	2.1	7.0	8.7	7.7	-1.0	-4.1	5.7
	LSE	14.0	0.3	-2.4	-0.3	3.4	5.3	-2.1	-7.4	-16.1	3.0
<b>Employment expectations</b>	SME	10.4	12.1	13.2	12.4	13.0	12.2	11.5	-0.7	1.1	-0.3
	LSE	19.3	16.5	16.9	19.4	18.7	19.2	15.4	-3.8	-3.9	0.2
<b>Sales price expectations</b>	SME	10.0	11.2	11.8	14.5	14.7	14.0	13.9	-0.1	3.9	1.7
	LSE	6.2	7.2	9.5	10.9	9.9	8.9	8.1	-0.8	1.9	-0.2
<b>Export expectations of manufacturing</b>	SME	10.0	2.0	1.2	2.9	2.0	2.1	0.9	-1.2	-9.1	-0.4
	LSE	13.2	2.2	0.2	0.2	5.4	1.5	-0.8	-2.3	-14.0	1.2

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.