

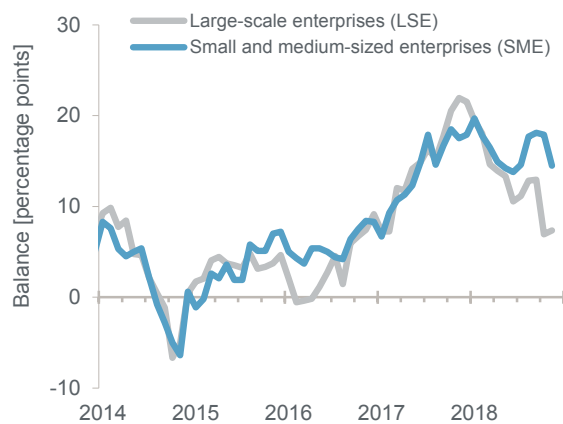
»» SMEs have the autumn blues

3 December 2018

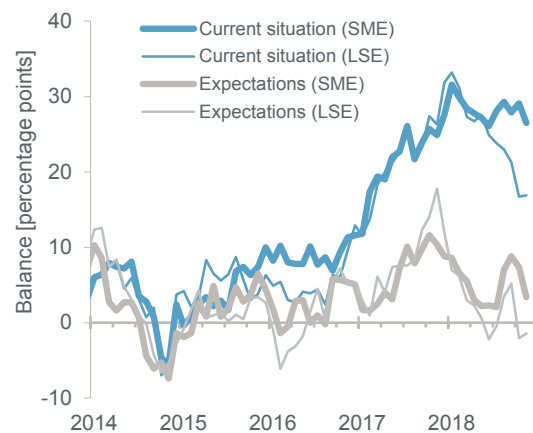
Author: Dr Klaus Borger, phone +49 69 7431-2455, klaus.borger@kfw.de
Press contact: Christine Volk, +49 69 7431-3867, christine.volk@kfw.de

- SME business climate drops noticeably at a high level
- Expectations are less optimistic, situation assessments remain very positive despite decline
- Sentiment brightens cautiously among large enterprises thanks to manufacturing and retail
- Germany's upswing continues unexcitedly

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business sentiment has cooled noticeably

Sentiment among German SMEs cooled noticeably in November after a surprisingly stable October. Thus, with a one-month delay, small and medium-sized enterprises partly followed the strong decline in large enterprises' business sentiment, which was mostly driven by expectations, although it recovered slightly again in November. Specifically, the SME business climate declined by 3.4 points to now 14.5 balance points. In a long-term comparison, however, this is still a very good result, thanks especially to the business situation component.

- It is true that SMEs rated their current business situation 2.6 points worse than in October. But the current level of 26.5 balance points is still among the top 10 per cent of situation assessments since the beginning of the time series in January 2005. This is not only indicative of continuing very robust domestic demand but also suggests that the contraction of economic output in the third quarter (-0.2%) will remain an outlier and that Germany will return to positive growth already in the fourth quarter.

- SMEs' business expectations dropped by a strong 4.0 points but remain above average at now 3.4 balance points – unlike large enterprises. Global risks, such as US protectionism, Brexit and Italy's row with the EU over its budget, appear to be causing growing concern among SMEs as well. Even though they are relatively more heavily geared to the domestic market, they are also affected by external developments, at least indirectly through interconnected value-added chains and demand effects.

Large enterprises are slightly more confident

Among large enterprises, business sentiment showed cautious improvement in November after plunging in the previous month. Situation assessments improved marginally by 0.2 points to reach 16.9 balance points. At the same time, expectations rose by a modest 0.6 points. At now -1.4 balance points, however, for the second consecutive month they remain just below the zero line, which represents the long-term average. Altogether, large enterprises' business sentiment has thus picked up by a moderate 0.4 points to 7.3 balance points. As such, that is not a bad

result but clearly less than in the SME sector. The wide sentiment gap that has widened since last spring to the detriment of large export-oriented enterprises shows that it is the slightly sputtering global economy and, most of all, the many international uncertainties that are currently weighing on economic performance.

Retailers and large-scale industry have recovered

With a view to the climate indicators – broken down by economic sector and enterprise size class – three things are particularly striking that might put the weaker overall result for the business climate into perspective:

- First, the significant decline in the business climate in both size classes of the construction sector. This decline is taking place on an elevated level and follows several new all-time highs this year. Hence, the most recent consolidation of sentiment in the construction sector was only a matter of time and is no reason for concern.
- Second, the very strong improvement in sentiment among large retailers. They offset the slump in the previous month well, gaining 12.2 points to reach -1.0 balance points. That is a low level in a cross-sector comparison but the best result for large retailers since May. It should be regarded as a sign of easing tensions surrounding the WLTP issue in automobile production and trade, as car dealerships are heavily represented in the segment of large retailers. Overall conditions for private consumption are good in any case thanks to persistent employment growth and rising real wages, as underscored by SME retailers' consistently positive business climate assessments over many months. In November they increased by 0.7 points to 11.4 balance points.
- Third, the slightly improved business climate among large manufacturers (+0.6 points to 6.0 balance points), which defies persistent global burdens. We also regard this as a first sign that the situation in the automotive industry is now beginning to normalise again after the most recent distortions which were responsible for the unexpected decline in economic output over the summer.

Hope for higher sales prices

In addition, the employment and price indicators of the KfW-ifo SME Barometer provide further arguments against exaggerated economic pessimism. Irrespective of the decline in the SME sector (-1.6 points to 9.7 balance points) and the increase among large enterprises (+1.4 points to 16.1 balance points), the majority of enterprises of both size classes continue to report expansionary hiring plans. At the same time, they are increasingly confident about their ability to achieve higher sales prices (SMEs: +0.9 points to 14.8 balance points; large enterprises: +3.2 points to 11.4 balance points), which suggests good capacity utilisation and lively demand. This outlook is sure to be very welcome from a monetary policy perspective because it supports the European Central Bank on its cautious pathway of normalisation. Export expectations in November, however, are split. Large enterprises have hit an annual low while manufacturing SMEs are on an annual high.

The boom years are over

The autumn blues, which have hit SMEs slightly after the large enterprises, may be typical for the season. But it is not a suitable indicator of a long and frosty economic winter. The levels of almost all indicators of the KfW-ifo SME Barometer are much too good for this and other hard monthly economic indicators, such as incoming orders in the manufacturing sector and automobile production, started into the fourth quarter with a strong tailwind as well. The boom years with real growth rates of 2% or more, such as 2017, are over for now. But Germany is still set to grow at the rate of its growth potential and thus rather unexcitedly – at least if the multiple risks at European and international level remain halfway manageable. KfW Research predicts economic growth of 1.6% for both 2018 and the coming year 2019. ■

KfW Research

KfW-ifo SME Barometer: November 2018

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year						m-o-m	y-o-y	3m-o-3m	
		Nov/17	Jun/18	Jul/18	Aug/18	Sep/18	Oct/18				Nov/18
Business climate											
Manufacturing	SME	19.6	11.9	12.3	12.8	14.9	11.8	10.2	-1.6	-9.4	0.0
	LSE	27.9	10.4	9.8	11.0	11.9	5.4	6.0	0.6	-21.9	-2.6
Construction	SME	24.7	26.6	36.2	37.6	40.8	40.8	38.2	-2.6	13.5	6.5
	LSE	26.7	30.1	33.2	37.9	35.2	38.6	34.9	-3.7	8.2	2.5
Retail trade	SME	15.4	9.3	11.6	11.9	13.9	10.7	11.4	0.7	-4.0	1.1
	LSE	3.6	-4.1	-7.0	-5.0	-1.1	-13.2	-1.0	12.2	-4.6	0.3
Wholesale trade	SME	18.2	10.7	10.3	11.6	12.0	10.9	9.4	-1.5	-8.8	-0.1
	LSE	18.2	5.7	7.6	13.3	10.5	8.0	5.6	-2.4	-12.6	-0.8
Services	SME	15.8	12.1	12.5	17.3	17.0	17.5	14.5	-3.0	-1.3	2.4
	LSE	21.1	14.7	19.6	18.6	20.8	15.4	13.4	-2.0	-7.7	-1.1
Germany	SME	17.5	13.8	14.6	17.7	18.1	17.9	14.5	-3.4	-3.0	1.5
	LSE	21.9	10.5	11.1	12.8	12.9	6.9	7.3	0.4	-14.6	-2.4
Current situation	SME	24.9	26.1	28.1	29.3	27.9	29.1	26.5	-2.6	1.6	0.0
	LSE	26.3	24.9	23.8	23.0	21.3	16.7	16.9	0.2	-9.4	-5.6
Expectations	SME	10.4	2.3	2.1	7.0	8.8	7.4	3.4	-4.0	-7.0	2.7
	LSE	17.8	-2.2	-0.4	3.5	5.2	-2.0	-1.4	0.6	-19.2	0.3
Employment expectations	SME	12.8	13.2	12.4	12.9	12.1	11.3	9.7	-1.6	-3.1	-1.8
	LSE	17.1	16.8	19.3	18.5	18.9	14.7	16.1	1.4	-1.0	-1.6
Sales price expectations	SME	10.8	11.7	14.4	14.6	13.9	13.9	14.8	0.9	4.0	0.6
	LSE	4.5	9.5	10.9	9.8	8.7	8.2	11.4	3.2	6.9	-0.6
Export expectations of manufacturing	SME	7.1	1.2	3.0	2.0	2.2	1.2	4.1	2.9	-3.0	0.4
	LSE	13.0	0.3	0.2	5.4	1.4	-1.0	-1.9	-0.9	-14.9	-2.5

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.